IMPACT OF GOVERNMENT CONTROLS AND REGULATIONS ON INDUSTRIAL EXPANSION IN INDIA SINCE 1951

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BY

Dr. NAFEES BAIG
Department of Commerce

FACULTY OF COMMERCE
ALIGARH MUSLIM UNIVERSITY
ALIGARH (INDIA)
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(Dr.) Nafees Baig

Department of Commerce
Aligarh Muslim University
Aligarh.

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C O N T E N T S

INTRODUCTION

One of the important developments of the past few years has been the increase in the controls and regulations of private enterprise not only in India but in almost all the countries of the world. The extent of controls varies from country to country, but they proliferate in most under developed areas to an extent unknown in nine-teenth century development.[1] Even in Western Countries the volume of state intervention has been rising.[2] The legal, economic, political, and social implications of this are tremendous. With the growth

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1: Edward S. Mason, Economic Planning in Under-developed Areas, Government and Business, Fordham University Press, New York, 1958, p.10.

2: Gunnar Myrdal, Beyond the Welfare State, Yale University Press, New Harven, 1960, pp. 29/p.

industrialism and the development of the factory system, it was but natural that speculation upon the relation of the state to the economic system and institutions in general and private enterprise in particular should occupy a prominent place in the politico-economic philosophy of a country. In our country also, with the emergence of the objective of achieving socialist pattern of Society or democratic socialism government regulations and controls of private enterprise have assumed enormous significance. It has become necessary for the government to adopt innumerable regulations and controls to determine priorities, allocate existing resources to the best advantage, fix prices, determine the pattern of production and distribution of commodities and to regulate the economy through various measures with a view to fit the industrial expansion in the private sector into the frame work of social and economic policy of the government. In view of the importance of the subject, the present study examines the impact of these Government regulations and controls on industrial expansion in India since 1951. It will focus on the theory of government regulation and control - why it exists? what is regulated? how it is regulated and the problems arising therefrom.

Historically, governments have always regulated and controlled private enterprises. Even in the days of so-called laissez faire, government closely regulated and controlled economic activities. The real question has never been whether or not a government should regulate and control, for that is a naive question; governments will always regulate and control. Rather the question is how the government can regulate best without stifling the productivity, creativity, enterprise and freedom of its people. Hence this study is not concerned with the discussion of ideologies or advocacy of any brand of socialism. The work starts with the basic premise that whatever socialism may mean to any one, it atleast assumes that no individual in society should be permitted to exploit another individual and there should be as less gulf between the rich and the poor as possible. This study, therefore, does not presume to reveal the solution to the problem of the proper role of government in economic life. Its objectives are modest. First of all, it attempts to provide a basis for evaluating impact of government's regulation and control on industrial expansion inIndia since 1951. It, thus, aims to view, analyse and judge industrial problems associated with government regulations and controls. The study is not a polemic aganist government regulations and controls. Nor does it seek acceptance for all government controls. Blind acceptance of government regulations is as stupid as automatic rejection of all regulations. The approach is to understand why government regulates and controls, even though one heartily disapproves of its doing so. Another objective of this study is to develop a suitable methodology for coming to grips with extraodinary problems of government regulations and controls of industries. It seeks to establsih those methods which help in perfecting judgements about the desirability or otherwise of these regulations and controls in general. A final objective of this study is to present the major problems and issues associated with government regulations and controls both in aggregate and in detailed areas of action. Thus the whole study will raise many questions than it will argue. But, if the unanswered questions are strategic, their formulation and classification may provoke thinking.

Evaluation of adopted and proposed regulation and control of industry presents serious problems for their seeking some or right answers. This is partly because available knowledge can not always yeild a decisive answer, for several reasons. First, the various major disciplines which must be brought to bear upon public issues (legal, economic, political etc. that vary considerably in their precision and the universality with which principles or laws are accepted. Second, these various disciplines are not conducted into a single model against which policies can be tested scientifically and objectively. Third, the larger objectives of society, against which these policies are to be evaluated, are by no means crystallised or accepted in the minds of every one. Nor are they fixed in time. Fourth, conclusions are value judgements which most often can not scientifically be proved or disproved. This does not mean that firm decisions can not be drawn, or that no government regulation and control is capable of scientific analysis to determine a right answer. But it should be recognized that evaluation of government regulation and control often can not be evolved with the precision of mathematics.

This study attempts to follow what may be called the objectives-means-evaluation approach. This means simply that in dealing with both the problems of government regulations in the aggregate and the problems of government regulation in any area of control, the analysis enquires into the objectives of the regulations and controls, then investigates the means used to achieve them, and then judges the acceptability of the objectives and means. The study is concerned legally with economic powers exercised by the Central Government. Occasionally state and local controls are treated but for the most part attention in focussed on the controls at national level.

A CONCEPT OF GOVERNMENT CONTROLS AND REGULATIONS:

So strategic is the meaning of government regulations and controls to this entire study that some preliminary definition and discussion of the term is merited in this introductory part of the thesis. Ordinarily it carries a negative meaning both in its dictionary sense and in its use to describe government influence in economic affairs. But one of the facts of out-standing significance is that the hand of government in economic affairs is not always negative or restraining. It can be, and often is, positive and promotional. There are few, if any, government controls which restrain and restrict without some associated with assistance and promotion. It should be borne in mind that controls are not solely negative. It can indicate positive or negative actions. The problem, therefore, is how to get the correct balance and harmony between the two.

The basic concept of what control is may be elaborated just a bit by observing the different types of economic fuctions performed by government, or to put the matter differently, the categories of government economic decision. Five are readily distinguishable. First, the Government assists or promotes economic activity. It helps industry and agriculture by direct studies, it promotes the rights of labour to organise and bargain collectively; it seeks to stimulate manufacturing by tarrif protections; and it tries to foster trade by instituting commodity standards. Second, the government regulates economic activity in specific areas. The various regulatory commissions, such as Monopolies and Restrictive. Trade Practices Commission etc. direct activities in specific industrial areas. Third, the government operates and owns various industrial activities like atomic enery, defence production etc. Fourth, the Government engages in macroeconomic controls to guide and influence the totality of industrial activity. Such are, for example, the various monetary and fiscal policies of government which are designed to influence the totality of purchasing power, credit, spending and capital investment. Finally, the government influnces industrial activities by persuasion and inducement.

This technique is used essentially as spot therapy such as a governments' request to producers to hold down prices, or to industry to maintain employments, to continue paying dividends and to continue capital expansion projects.

In sum, government control and regulation is a two sided action. It is restrictive and it is assistive. Any and all controls have something of each characterstic in them. This concept of government regulation and control is of elemental significance in any analysis of this nature.

FRAMEWORK:

To study the impact of government regulations and controls on industrial development in the private sector of our economy, the present work has been divided into 6 Chapters. Chapter I deals with the problems of, and need for, government controls and regulations. Chapter II highlights the importance of the technique of planning as an aid to government regulations and controls. Chapter III is dedicated to an examination of the methods and techniques of government regulations and controls. In Chapter IV an analysis of the pattern of industrialisation under the government controls and regulations has been made. Chapter V presents an analytical study of financial institutions as a means of providing finance to industrial enterprise in the private sector. Chapter VI is a concluding chapter dedicated to a critical review and appraisal of the impact of government regulations and controls measures on industrial expansion or contraction in the country.

CHAPTER - I

C H A P T E R - I

ECONOMICS OF GOVERNMENT REGULATIONS AND CONTROLS

Ever since we launched our Five Year Plans in 1951 we have been trying to better our economy. There has been growth both in the private and public sectors but this growth has not been able to keep pace with the increase in our population. The question, therefore, is; do we need to control private enterprise and if so, to what extent? Some will say, what does it matter so long as our industrial potential goes up and up and so long as we get along or in other words; what does it matter if a cat is white or black so long as it catches mice? This is a wrong notion, for planned economy is not a case of natural growth but of a planned growth. The old doctrine of laisses faire no longer holds good in the world of today and ours is an organised and well planned economy. Hence a certain measure of control and regulations of industry and private enterprise is absolutely necessary. The present chapter will, therefore, highlight what is being done, what controls there exist, and what impact these controls and regulatory measures have on industrial expansion in the country.

It is a fact that the alternative before us is not really between complete control on the one hand and complete freedom on the other. The classical theory of free enterprise is not practised in true form in any part of the world of today and even the economies which claimed to be based on a system of free enterprise and laissez faire have various built-in measures of regulation and control. The anti-trust and other regulatory legislation in the U.S.A.[1], and similar regulatory control over monopolies and mergers in the U.K.[2] illustrate that a certain degree of regulation and control is inevitable in order to secure and promote larger interests. On the other hand, the greater entrepreneurial freedom being allowed to industrial

1: The period which followed the civil war in the United States was a period of unparalleled industrial expansion and development. This expansion was accompanied by a rapid and tremendous concentration in certain fields of commerce and industry.

2: In the United Kingdom a strong post-war urge towards social+

enterprises in socialist countries, particularly in Yugoslavia is a pointer in the other direction and reflects recogni-tion of the need for greater flexibility and for permitting fuller play of the market mechanism, even in countries which were primarily based on a system of detailed planning and comprehensive controls. The choice is, thus, the degree of control and regulation that is necessary during various stages of economic growth. The regulatory and control mechanism can not be conceived of in static terms; it is essentially a dynamic process and has to be viewed against the environmental situation existing at a point of time.

Expanding government regulations and controls have, thus, characterised life in the twentieth century. The movement is not limited to India. Even the most casual knowledge of events in other countries would reveal something of the broad upsurge of government regulations and controls throughout the entire world. So widespread and persistent has this movement been that it is

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* Perhaps the outstanding example during this period was that of the Standard Oil Combination which by 1879 had secured control of about 90 percent of the oil refining capacity of the united States (See The Trust Problem in the United States by Eliot Jones, p. 52).

+justice found early expression in the Beveridge Plan for++

rather wrong to attribute it, as some people do, to misguided reformers, politicians or theorists. Rather, the forces pressing for more government intervention in economic life are fundamental. The influence of government is felt today in every business, every manufacturing plant and industrial undertaking. It circumscribes, channels, directs and controls economic activities of every description. Economic institutions and industrial enterprises, in fact, operate on the basis of government action. No corner of economic life escapes the hands of government. The touch is sometime light and sometime heavy, at times help-ful and at other times restraining; it may be agreeable or arbitrary. But whatever may be its nature at any one point, the power of government affects our economic lives intimately and often irrevocably. Government is thus a silent partner in most edemomic activity.

The specific problems which expanding government regulations and controls raise today are difficult and complex. Thus, what are tenable objectives of full employment policy?

** Another illustration is that of the American Sugar Refining Company which by the time its prosecution for violation of the anti-trust laws in 1895 controlled with its allied Corporations about 98 per cent of the Sugar Refining in this Country. (U.S.v. Knight (1895) 156 U.S.1.,39 L.Ed. 325,15 S.Ct. 249).

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++ social security 'from the cradle to the grave! The consequential

How can government expand the area of competition in industrial arena? How high can tax rates go before they jeopardise capital investment and individual incentive? Can Government regulations and controls of industries continue its past inexorable march while at the same time preserving the fundamental economic freedom? Can our country maintain private sector enterprises and benefit from the obvious advantages of private initiative in improving social welfare while at the same time restraining the excesses of individualism and directly improving the well being of society as a whole? Is it possible (as in Great Britain and New Zealand, for instance) to embrace so considerable doses of state socialism and still permit the means of production to lie predominantly although not entirely, in private hands?

The problem is, thus, not a question of indivual freedom versus Government regulation and control. The immediate problem is rather that of devising ways and means for harmonising and integrating the industrial policies and programmes of government with those of private industrial interest so as to enable them together to approach the highest possible level of well being for the nation as a whole. It is the problem of devising

***A thrid illustration is that of the American Tobacco Company which by the begining of the twentieth century had secured a virtual monopoly of the tobacco manufacturing business in the... United States (See the opinion of the court in U.S.V.American

+++emergence of the Welfare State as a routine of government policies in the United Kingdom involved a certain measure of commitment on the part of the government in the economic affairs of the nation.

a workable relationship between public and private interests which will achieve the fundamental goals that society sets for its social and economic system. This was the problem of Aristotile, of Plato, of Adam Smith. The same is the problem today for economists to solve.

Adam Smith's [illegible] in his ability to solve the problem reasonably well for his day and age. His Wealth of Nation[1] written in 1776, set the pattern of the appropriate role of government in economic life for his time. But it was a solution which, in practice, as distinct from theory, was of comparatively short dura-tion. In 1846, when the British Parliament was debating the first ten Hours Bills, Lord Macaulay observed:

" There is no more important problem in politics than to ascertain the just mean between these two most pernicious extremes, to draw correctly the line which divided these cases in which it is the duty of the state to interfere from those

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**** Tobacco Co. (1911) U.S. 55L.Ed.663,31S Ct.632).
Not only the size of these large combinations but the tactics which they employed in securing for themselves a dominant position were such as to arouse the fears and antagonism of the public. The unfiar practices which many of them engaged in probably led to the feeling that these combinations had grown and prospered, not because of any inherent superiority in **** methods or products, but because of tactics which were inimical

1: The Correct title is "An Inquiry Into the Nature and Causes of the Wealth of Nation".

cases in which it is the duty of the State to abstain from interference[1]. A few years later, John Stuart Mill[2] lamented.

"One of the most disputed question both in political Science and in practical Statesmanship at this particular time relates to the proper limits of the functions and agency of government". These words can be used today without any loss of their significance.

Around the middle of the mineteeth century, the doctrine of lasseiz faire enjoyed supremacy. The first economist, Adam Smith and his followers, were impressed with how beautifully the system worked-guided as it were by the invisible hand of God. "Leave it alone and all will be well" was the reverent message. But later on, when the system showed signs of breaking down from massive up-heavals of boom and depression, various Mr. Fixits emerged. Keynes said it could be saved by having government interfere in the system in a limited way. There-after there have been significant exceptions and changes in the kinds and degree of regulation and control and the philosophy underlying it. In the U.S.A.,the individualistic theory was combined

*****to the interest of the public. By 1888 antagonism toward trusts had manifested itself to such an extent that the four ***. important political parties, Democrats, Republican,Prohibitionists

1: Steiner, G.E. Government's Role in Economic Life,Mc Graw Hill Book Company INC, 1953, p.4.

2: Ibid p.4.

with a regime of high protective tarrifs. In France, and many other countries, the control of foreign trade provided one of the important issues in the field of economic policy during the nineteenth century. In England also, at no time there was complete adherence to the principles of laissez faire. The Factory Acts were enacted there as a challenge to these principles. These laws can be said to provide the earliest example of state regulations and control.

In India also extensive enquiries[1] were made on the subject of government controls and regulations of private enterprise. These mainly reveal that controls have failed to fulfil the purpose for which they were intended. Within the framework of broad aggregate laid down by the plan, it is felt that there is a considerable scope for the market mechanism to operate. Instead of seeking to achieve detailed targets through the control mechanism, the Government should bring about a desired result by controlling the flow of inputs in the shape of finance, foreign exchange, credits etc. and by channelising them to the desired

*** and Union Laborites, embodied planks in their respective plateforms denouncing and expressing opposition to combinations and trusts (John D.Rock Feller by Allan Nevins Vol.II pp. 123-128. The Trust Problems by Jenks and Clark, 4th ed. 244.See also, however, The Federal Trust Policy by John D.Clark p. 27, in ***

1 : Swaminathan Committe Report,Hazari's Report on Industrial Licensing, Dutt Committee Report etc.

field[1].

Violent fluctuations in prices, over and under production extravagence and poverty are cogent evidence of the need for some kind of control and planning. Schemes for socio-economic planning have, therefore, been advanced. In these the function of the state very greatly. The most radicals would subjected the lives of all persons tominutes supervision and guidance by the state. Other advocate price control, limitation of production and a more equitable distribution of wealth. For the most part, all these plans and schemes are but variations or manifestation of fundamental political theories or philosophies of the functions of the state. It is difficult to make a classification of the theories of the function of the state which will not break down undersearching analysis. For one thing, each shades so imperceptibly into another that it is almost impossible to draw a line of demarcation.

Broadly speaking, theories concerning the functions of the state may be grouped under large headings: anarchism, individualism, socialism and communism. Anarchism representing the one

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**** which the authors states that the extent of the popular agitation for the enactment of the Sherman law has been greatly over emphasised.
Realising this congress fortified state legislation by the enactment of the Sherman Anti-trust law of 1890. In 1914 congress sought to strengthen the Sherman Act by passing the **

1. Study Team of Administrative Reforms Commission on Economic Administration (1962) p. 1.6.

extreme advocates the total abolition of the state. Communism at the other extreme, places the ownership of all property in the hands of the state and subjects the lives of individuals to extensive control and supervision. Between the two extremes lie individualism and socialism. Individualism has found wide acceptance not only in the political thought but also in the practical politics of both the U.S.A. and the U.K. Briefly, it stands for the divorce of government from business, it glorifies individual initiative and it seeks to allow the fullest possible individual development unhampered and unhindered by restrictions of the state. The French expression laisses faire summarises excellently and concisely the spirit of individualism.

The most important exponents of individualism were the French Physiocrats and certain English Economists and Political Scientwists of the eighteenth and nineteenth centuries. notably Jeremy Bentham, John Stuart Mill, Herbert Spencer and Adam Smith. The various individualistic theories have started with different premises and reached different conclusions but all have disapproved of government control and regulations[1].

:: Clayton Act and the Federal Trade Commission Act. These Acts appear to mark the peak of anti-trust legislation in the U.S.A.

1: Theory of Legislation by Jeremy Bentham, Chapter -I-XIII (6)

During the most of the nineteenth century in both the U.S.A. and the U.K., individualism was the economic and political philosophy of a great majority of individualists, judges and lawers. These men believed that the government should keep out of business. Business and industry must be permitted to develope unfettered and unhampered by Government control and regulations[1]. Thus, under the influence of individualism, the factory system developed. Industries grew, prepared and escaped government regulation and control. But as the society become more complex and individuals more interdependent, individualism has been forced to give way to something more befitting the great industrial society of modern times.

Socialism stresses social interests and welfare and regards the state not as a necessary evil but rather as a desirable institution whose duty it is to undertake new functions and services, to prohibit certain, to aid or regulate business, and to interfer with the rights and freedom of the individuals

(i) Social Statics by Herbert Spencer; On liberty by John Stuart Mill.
In his book "Wealth of Nations"(Book IV, Chapter II) (ii)

1: Law: Its origin, Growth and Function by James C. Carter, p.337
"There is a guide which, when kept clearly and constantly in view, sufficiently informs us that we should aim to do by legislation and what should be left to other agencies. Thisis what I have so often insisted upon as the sole function both ... ... (c)

whenever by so doing such action will promote the welfare of a large group of society as a whole. This change is reflected in the writings of many of the leading economists and political thinkers of modern times.[2]

Socialism should not be confused with communism. Communism advocates the abolition of private property in consumption as well as in production of goods. Socialisim, on the other hand, does not advocates the complete abolition of the institution of private property. There are many kinds of socialism. One of the most radical kinds of socialism is ' state Socialism'. Advocates of this favour an extension of state authorities into the economic field through public ownership and operation of certain industries. Another best known kind of socialism is 'Marxian Socialism'. Karl Marx its founder, has not given us a systematic outline of the political or economic or organization, but he has enunciated certain cardinal principles upon which other socialists and even communists have built up their system. The first of his doctrines is the economic interpretation of history.

(ii): Adam Smith advocates the principles of free competition. Like Smith, French Physiocrats advocate freedom of Competition. One of their number Francois Quesnay, Maxim XXV, (iii)

(+): of law and legislation, namely, to secure to each individual the utmost liberty which he can enjoy consistently with the like liberty to all other!

2: Henty Sidgwick in his "The Principles of Political Economy"

According to him, our entire life, our ideas of marriage, politics, art, and even religion are the results of our economic condition either past or present. The second is his labour theory of value. According to him, labour is the sou ce of all value and should, therefore, be entitled to all it produces. The third important principle is his doctrine of class struggles. In this Marx holds that the labourers and the capitalists have nothing in common but are fundamently and definitely antagonistic. The fourth principle is the concept of society as an evolutionary product.[1]

Another type of Fabian Socialism has centred about certain English intellectuals such as, George Bernard Shaw, Graham Wallas, Harold J. Laski, Sidney and Beatrice Webb. The Fabians believe that socialism can be achieved by evolution and accordingly have championed many reform measures which are in harmony with their principles.[2] Guild socialism differs some what from the other kinds of socialism in that it advocates the organisation of society into guilds.[3] We, in India , have declared

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(iii): in his book entitled, Maximes generals de government economiwue d' un noyanme agricole writes as follows:- (iv)
"Let absolute freedom of commerce be maintained, for the
*: points out and justifies instances of governmental inter ference. Leon Duguit in his "Law in the Modern State" (**)
1: For a statement of these fundamental doctrines of Marx (+)
2 : See "Fabin Socialism" by G.D.H. Cole.
3 : See Guild Socialism Restated by G.D.H. Cole.

the attainment of socialist pattern of society', or democratic socialism' as our goal for socio-economic advancement.[1] The basic philosophy behind this concept is that there should not be inordinate private property and that there should be greater equality both in the earning and distribution of income and wealth. The constitution is definitely and expressely against concentration of wealth and material resources. This necessitaties the government regulation and control of industries in order to achieve the above mentioned objectives of our state policy which states that "the ownership and control of the material resources of the country are so distributed as best to subserve the common good and the operation of the economic system does not result in the concentration of wealth and means of production to the common deteriment.[2]

The basic principle in the ideology of Government regulation and control is that the State shall take an active, indeed the decisive, role in the economy; by its own acts of investment and enterprise and by its various controls, inducements and

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(iv): surest guardian of internal and external Commerce, the most exact and profitable to the Nation and State, lies in the unlimited freedom of competition.(v)

(**): Chapter XI Part IV believes that all activities must be (***)

(+): see "A History of Political Theories in Recent Times" by C.E. Merriam and H.E. Barnes p. 180; also"Outlines of (++)

1 : See Third Five Year Plan,Govt. of India,Planning Commission

2 : Article 39 of the Indian Constitution(Directive Principles of State Policy).

restrictions over the private sector, the state shall initiate, spur and steer economic development.[1]

As a matter of fact if our industrial concerns or group consistently try to prevent effective government regulation and control, the state may be forced to take them over or to enter the field as a competitor in order to protect the public interest. Secondly, the condition of some essential and key industries may force the government in that direction. If certain important industries can not be operated so as to give sufficient profit to private capital and a satisfactory reward to labour, the government may be forced to undertake their operation and ownership. The method and techniques of regulation and control may change from country to country but certainly, not only in India, but the world-wide trend at present has been in the direction of more Government ownership and control.[2] This has been correctly emphasised by our First Five Year Plan in

(***): Governmentally regulated and controlled in order to produce social solidarity.

(++) : of Economics" by Richard T. Ely 6th ed. p.629 also "The Marxian Theory of the State" by Sherman H.M. Chang.

(#) : New Delhi, 1961, p.4.

1 : Gunnar Myrdal: Asian Drama, the Penguin Press London, 1968, Vol II Chapter 15 p.709.

2 : See the Survey Published in " The New York Times" March 3,1947 p.1. See also the pamphlet"Nationalisation of Key Industries in Eastern Europe by Samuel L. Sharp.

(v) : According to spencer(Social statics by Herbert Spencer Chapter IV Sec. 2 and 3) man has a right to liberty. He contends that the function of the State should be reduced to bare minimum. The State should not interfere in commerce and industry.

the following words:

" It is clear that in the transformation of the economy, the State will have to play the crucial role. Whether we think of the problem of capital formation or of the introduction of new technique, or of the extension of social services or of the overall readjustment of the productive forces and class relationship within society, one comes inevitably to the conclusion that a rapid expansion of the economic and social responsibilities of the State will alone be capable of satisfying the legitimate expectations of the people ... It does mean a re-orientation of the private sector to the needs of a planned economy. Private enterprise should have a public purpose and there is no such thing under present condition as completely unregulated and free private enterprise.[1]

The system of control and regulation of industry in our country has had quite a long history and goes back to the Second World War period when the entire economy was functioning under a fairly rigid system of controls. Regulation of foreign exchange, control on imports and exports, and control of entire range of production, prices and distribution had been comprehensively developed during the period prior to independence. Even today

1: See First Five Year Plan, Government of India, Planning Commission, New Delhi.

the legal basis of most commodity controls flow from the regulatory measures enacted during this period. During the post independence years and particularly after the initiation of planning in 1951, regulation of private enterprise was sought to be given a diffrent approach and direction consistent with the new objectives of state policy. While certain controls continued such as capital issues and company law[1] and the like in a form modified from time time, a fairly comprehensive system of industrial licensing developed over the years, primarily with a view to channelise scarce investible resources in a particular direction

The industrial policy resolution of 1956 laid down the principles of mixed economy and over the years the role of the public and private sectors have ~~from~~ remained relatively well defined with both being dove-tailed into a fairly consistent whole through the system of regulation and control. Broader considerations such as that of bringing about greater degree

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1: In India, the first Companies Act for the regulation of joint Stock Companies was passed in 1850 on the model of English Companies Act of 1844. In 1866 a comprehensive Act was passed for consolidating and amending the laws relating to incorporation, registration and winding up of companies. Again this Act was recast in 1882. During the period from 1882 to 1913 a number of Acts were passed to facilitate the * of regional dispersal of Industries were also sought to be achieved. Detailed targets of production and required capacities in various industrial sectors were laid down which served as a very useful guide to entrepreneurs during a difficult and transitional stage of industrial expansion and growth.

At an early stage of industrial growth when a vast range of basic and consumer industries had to be set up, pragmatism necessitated that production in various industrial sectors developed on planned lines. This was all the more essential because heavy capital in-puts together with foreign engineering and technical know - how was essential for a number of theses industries and very undesirable consequences could well have followed, had the industrial expansion been left completely free and unfettered at that stage. This is not to suggest that licensing of industries had been an entirely unmixed blessing. In a number of industrial units, the capacity licensed remained far from being achieved, procedure for revocation of licences which were not speedily implemented were slow and the insulation from competition has tended to aggravate the tendencies towards high cost

*: growth of Joint Stock Companies and their working on sound lines. An extensive Companies Act of 1913 was passed of the pattern of the English Companies (Consolidated) Act of 1908. Again in 1936 the companies Act of 1936 was passed

economy. Nevertheless, even with the short-comings and practical difficulties, it needs be emphasised that a system of licensing and control was essential.

The picture facing the economy today is quite different. With a vast range of capital goods including sophisticated machine tools and complex equipment and machinery being indigenously produced and supported by growth of indigenous know how in many fields including that of consultancy engineering a reasonable strong industrial base has now been created, on the foundations of which a superstructure of rapid industrial growth based on indigenous equipment and materials could be built up. With growing indigenous technology and with rapid increase in engineering personnel and talents, our dependence on foreign technology should be gradually reduced. The tendency of foreign collaboration and the performance of foreign machinery and equipment must give way to increased emphasis on indigenous technology and insistence on indigenous equipment both of which would form the corner stone of rapid industrial growth in the future.[1] With the wide industrial base that has now been established, together with infrastructure facilities such as power

: In the year 1956 the all important Companies Act of *

1: This point has recently been stressed by our new +

and transport which have also been substantially developed in most states, the time has come when we can consider establishment of industries not having foreign exchange implications on a more flexible and less restricted basis than in the past when most industrial projects were based on heavy inputs of capital equipment, foreign technology and foreign personnel. In fact, with the substantial production~~s~~ capacity of plants manufacturing sophisticated capital and engineering equipments over a wide range, there is need for rapid multiplication of industrial units to utilise such production capacity. Not only does the country possess a vast indigenous market for an enormous range of products and services but the possibilities of exports are also very bright and the rapid increase in non-traditional exports in the last few years is clearly indicative of the fact that the entire balance of trade could undergo radical transformation in the next few years to the country's advantage.

The second group of regulatory measures relate to the

***1956 was enacted. This Act has recently been amended for a number of times. (See Nafees Baig: Pattern of Company Management in India, Navman Prakashan, Aligarh (1971), p. 12-23).

+: Industries Minists in his policy statement (See Indian Express, New Delhi, April 2,1977, p. 1.

day to day functioning of the corporate sector and are embodied in the provisions of the Companies Act, 1956 and its amendments. This legislation is used as a check on the setting up of new companies and also to regulate the functioning of the corporate sector along certain lines in the general interest. The measures were primarily designed to bring about healthy functioning of the corporate sector at a time when the channelisation of savings and resources in industrial investments necessitated the utilisation of such investments in a manner designed to give confidence both to the individual investors and to the public at large.

There are certain social obligations of the Corporate Sector which have to be observed since the operation of this sector covers a large part of the private enterprise in our country. It is against these obligations that the provisions of company law have to be viewed. It is possible to conceive of, for example, a diffrent role for shareholders or social and cost audit may be given diffrenet form or the question of workers' participation in management may have to be given greater emphasis The role of the financial institutions in the management of companies when they have considerable financial stake could also be differently viewed. As corporate management moves to an era of greater professionalism, the role and responsibilities of the professional managers require greater elaboration.

In fact, the purpose of control and regulatory measures is to assist private enterprise in development on desired lines and in a healthy manner. The primary objective has to be that they do not lead to exploitation of people, waste and exhaustion of natural resources, lop sided development and concentration of wealth and of economic power. At the same time, the control and regulations have to be such that they do not hamper the expansion and development of the private enterprises but enable it to flourish and expand.

CONCLUSION

To conclude it may be said that government regulations and controls of industries is an essential element of government policies in almost all the countries of the world, whether socialist or capitalist. In India also our anxiety to regulate and control private sector industries got momentum after the launching of our First Five Year Plan in 1951. Since then a number of regulatory measures to control the industrial development in the country have been taken. The start of planning in itself was an important aspect of control and regulation of industrial enterprises in the private sector. Our endeavour in the next chapter would, therefore, be to analyse the impact of planning as a technique of government regulation and control.

* * *

C H A P T E R - II

CHAPTER - II

PLANNING AS AN AID TO GOVERNMENT REGULATION AND CONTROL OF INDUSTRY

In the preceding chapter it has been observed that most striking feature of the present day relationship of government with business and industry has been the acceptance by all national governments, whether capitalist or communist, of responsibility for social and economic objectives such as growth, full employement, balanced industrial development etc. But many of these countries, such as the United States, West Germany the United Kingdom, and Japan are still predominantly capitalistic in the sense that they continue to rely heavily on free market machanism for the allocation and utilisation of resources. The other alternative has been the communist one of of total nationalisation and regimented develpment . The "ideology of state planning[1] is now a generally accepted doctrine in most of the developing countries, India being the chief exponent. The acceptance of formal responsibility by the Indian government for the attainment of socio-economic goals under the 'Socialism' is itself due to the fact that the unplanned operation of the economy will not by itself bring about the desired results. So intervention in or regulation of the operation of the economy is called for. This chapter attempts to signify the importance of planning as an aid to government regulation and control.

In the post war period, the general concern initially felt regarding the possibility of increased unemployment and, later, the wide acceptance of the aim of attaining a high rate of growth, led to universal adoption of measures to regulate the operation of the economy on the part of Governments. These, in their turn, in a large number of cases have been transformed into systems of economic planning. It is now widely recognised that planning is being practised to a small or larger extent, in all the countries of the world. In almost no country is there

1: Gunnar, Myrdal, Asian Drama, 3 Vols.,Allen Lane, The Penguin Press, London, 1968.
(See in particular Vol. II Chapter 15, p.709.)

an implicit or explicit belief that market mechanism operates freely or that it always operates beneficially. A varying degree of pragmatism is exhibited in the light of which results are considered important and the extent of free market pricing and regulation or direction are related to actual circumstances and expected results of policy moves.

It is a fact that economic conditions need not remain as they are or evolve under the influence merely of natural resources. It is, therefore, felt that these conditions and their evolution should be under state control so that the economic system can be steered in a desired direction by means of intentionally planned and rationally coordinated state policies and programmes. Planning, thus, consists of integrating and having an over all viwe of the general conditions and then trying to progress all along the line given certain priorities.[1]

Planning in general may be sufficiently defined as any attempts to organise resources for the attainment of a chosen end or ends; it is, in other words, purposeful action. The only

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1: Jawahar Lal Nehru in a speech before the Economic Planning Conference, New Delhi, 1950.

reason we are driven to plan is the necessity to achieve economic goals bigger than are likely to be realised without planning ... The whole point of planning is to increase productivity and savings and mobilise them for economic growth. This we can do by adopting policies aimed at national objectives.[1]

The basic principle of planning is that state shall take a decisive role by means of direct acts of investment and enterprise and control over private sector on the basis of a set of consciously determined priorities. There are varying degrees of state intervention and control. When various controls are coordinated with a predetermined purposes in the economy as whole its is said to have established a plan ed economy. A planned economy functions under the great measure of control over economic resources. A control is said to be imposed when an individual or firm's freedom is restricted in relation to a particular object. More precisely, when an individual or firm's right of choice is restricted, a control is said to have been established. The choice of production means right to decide

1: Report on the Seminar on Planning Organised by the Federation of India Chamber of Commerce and Industry, New Delhi, 1959, p. 42.

what and how much to produce, with what factors of production, at what cost, and with what technique. The choice of production in an unplanned economy is determined by the interplay of market mechanism. The choice of investment is another choice of producers. A producer in an unplanned economy decides individually about the investment of his savings. He finds out which of his invesments are more profitable. Producers in an unplanned economy have the choice of exchange also. But in a planned economy these choices of producers are taken away by the State.

There are varied conditions which determine the nature of controls in a planned economy. If planning is permanent and there is little change of giving it up, there is a tendency of increasing controls. For attaining the desired goal, controls go on becoming more and more strict, with greater rigidity and with much sacrifice of freedom. Degree of control needed in a planned economy would depend upon the nature and character of the objective of economic planning. If the objective of planning is successful prosecution of war, the controls would be highly rigid and severe. Rationing, payment of wages in kind, strict regulation of investment, conscription, licensing, state monopoly of foreign trade, etc. would be the general nature of the control. On the other hand if it is planning for full employment, nature of control would greatly differ. Planning more by inducement and less by direction will be generally preferred. Similarly, the degree and quality of control would greatly depend upon the objectives of planning. Control of different kinds is required in cases of planning for war and for peace, planning for post-war reconstruction, full employment and industrialisation and planning for social justice and equality. For example in India during the period of war, controls were more rigid and direct, while in the post war period they were more liberal. They again became more strict and comprehensive during the priod of the Emergency. The nature of control in Nazi Germany differed from the nature of control in Socialist Britain, mainly because the objectives were different. Pre-industrial development in Europe occured with a framework of close state regulation that occasionally deserved to be described as statism. Liberalism brought general freedom of enterprise, but regulation and restriction on foreign trade and on the exportation of technological know how and skill lin-gered on well into the industrial age. However, direct contribution by the state were also considerable. Thus the German States organised and protected controls, and there, as elsewhere the building of rail-roads and public utilities was undertaken by public authorities. Even in the U.S.A., where such investments were largely left in the private hands, they could not have come about without extensive state intervention. In Japan State intervention played a larger role in the early phases of industrialisation than in North West Europe or the New World. But for the most part, this intervention was limited to miscellaneous ad-hoc and even provisional policy measures. It would be almost true to say that we are all planners now. The collapse of the popular faith in laissez faire has proceeded with spectacular rapidity in our country also and all over the world. There now exists a completely planned economy in Soviet Russia and China, a bold and far reaching attempt at general in America, and extension of the economic power of authoritarian governments in Italy and Germany, and the rediments of financial and agricultural planning in England.

It is obvious from the above discussion that planning is an economic and universal fact of modern society, whether it is capitalistic, socialistic or communistic country. Economic progress in a developing country like India has necessarily to be based on planning. Planning inevitably means inummerable regulations and controls not only in respect of determining priorities, allocation of limited resources to the best advantage, fixing prices or regulating the distribution of commodities but also in respect of creation, direction and execution of major policies for the growth and development of industrial enterprise.

Whatever is the degree and form of planning adopted, the common element to all the forms of planning is the extension of the size of the unit of management and the consequent enlargement of the field surveyed when any economic decision is taken. The diagnostic property of an unplanned economy is the requirement that all decisions should be taken by industrial supervisors in only a small - indeed an infinitesmal - area of the industrial world. The Industrial producer controls so small a part of the total output of a single commodity that he can exert no influence upon the quality and price of anything that he either buys or sells. His field of vision is restricted to the technical organisation of his own factory or workshop and no individual or corporation possesses any power to control the prices or output of the industry. All forms of planning extend the area of economic life and increase the number and importance of the economic qualities. Thus, planning is a scheme of action covering the entire structure of the economy, is an attempt to pool together the available resources of the country and direct them in a manner that will realise the defined social and economic goals.

It is an accepted fact that government regulation and control, coordinated in a plan, are needed to bring about industrial expansion in our country. We cannot launch industrial growth when the government does not interfere in the market in a sense quite different from the intervention involved in the nostrums of welfare economics. Launching a 'take off' is not merely 'patching the market'. Even raising the ratio of effective savings and investment to national income to finance a 'minimum effort' involves an element of intervention; it would not occur through market sources alone.[1] Without a system of economic planning this is not possible.

Now the larger part of the capital inflow that is needed for industrial development has got to be negotiated with other governments or with intergovernmental organizations. Capital grants, and even most of the loans, are not acquired on a strictly commercial basis. Different from the private investors of earlier times, the lenders now want to see large scale projects that are part of a government plan. Even when the capital inflow finances private investment, indigenous or foreign, the government of the recipient country becomes deeply involved as the authority sponsoring a plan. As capital inflow from abroad can never be more than supplementary, there also remains the difficult problem of how to squeeze and twist consumption so as to provide for industrial expansion. The recognition that this is necessary in order to speed up industrial development implies again a need for planned state regulation and control on a large scale.[2] In regard to foreign trade, the fact that the export outlook for our country is bleak means that, instead of rising

1: Benjamin Higgins, Economic Development, W.W. Norton Co, New York, 1959, p. 435

2: Gunnar Myrdal, Asian Drama, Vol. II, op. cit., p. 717.

demand for exports, exports must be pushed by systematic government action. Whatever effect such a government regulated export drive may have, we will have to creat opportunities for industrial expansion by keeping out, through planned government regulations and controls, import for which our own production can substitute. Again, modern technology and industrial sophistication show an inherent tendency to draw the state into large investments. Thus, once our government has decided on industrial expansion and development, there appears a great need for overhead investment in the tertiary sector of our economy, that is, transport, power and irrigation etc. They must be undertaken and controlled by the State because they are too big for private enterprise. This widens the field where the state finds reason to become involved.[1]

All these reasons for state regulation and control and consequently for economic planning, are present in our economy which is bent upon industrial development at a faster pace. To the list must be added : the relative lack of enterpreneurial talent and training in the private sector; the disinclination

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1: Gunnar Myrdal, Asian Drama, Vol. II, op. cit., p. 717

of most of those who are wealthy to risk their funds in productive investments and their preference for speculation, hoarding, quick profit, investment in gold and landed property, other conspicuous consumptions and investments, and finally, the tendency for large scale enterprises to acquire an extra ordinary degree of monopoly or oligopoly.[1] For these reasons, it is necessary to adopt planning as a means of controlling and regulating entérpreneurial activities in order to obtain the most rapid industrial development in the desired directions. Planning can also be expected to have some educational effect. To prepare a plan, publish it widely, and have it discussed should force people to think rationally in terms of means and ends. It is a known fact that industrial development requires fundamental changes in peoples' attitides towards life and work and that the grip of traditionalism should be broken. The rationale of economic planning also contains the idea that planning itself is principal means of reaching a higher level of national consolidation; first because, it will create a new institutional

1: Gunnar Myrdal, Asian Drama, Vol. II, op. cit. pp 717-18.

structure to articulate government policies; secondly, because the result, when planning is successful, will be higher industrial productivity, greater opportunities for the people and a symbol of national progress. Also, when planning brings people from different social strata into the dynamic process of social and economic advance, their sense of involvement and allegiance to the national cause and interest should be strenghhened. To start planning for industrial development is thus recognised as an important source of strength for government regulations and controls of private enterprise.

In India, planning has become an important part of the national life. It is true, as one observer puts it that "in India the Plan is the focus of public life, a tenet of national faith."[1] This is in part due to India's relatively long familiarity with planning endeavours. Several plans were produced before independence and the alien government was for a short time, between 1944 and 1946, even induced to set up a Department of Planning and Development.[2] Infact, the start of planning as an instrument of control and regulation of economic development in

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1: United Nations, ECAFE, Economic Bulletin for Asia and The Far East, XII, No.3, December 1961, p.56

2: See A.H.Hanson, The Process of Planning: A Study of India's Five Year Plan, 1950-54, Oxford University Press, London 1966, p. 27 ff.

India goes back to the year 1934 when Sir M. Visvesvarya published his book "Planned Economy for India". He believed that industrialisation with the emphasis on the development of the heavy industries should be the main course of the country's economic reconstruction.[1] The problems of industrialisation were then fully expounded in the documents of the National Planning Committee set up by the Indian National Congress in 1938. The Committee declared that indutrialisation was to be the corner-stone of an industrial policy. "Without industrialisation no country can have political or economic freedom. Without industrialisation also the rapid and effective raising of the standard of the people is not possible.[2] It also noted that as a step towards such industrialisation, a comprehensive scheme of national planning should be formulated.[3] The conclusions reached by the National Planning Committee gave rise to many other ideas, as those set out in the Bombay and Peoples' Plans.[4] In 1946, a Planning

1: Visvesvarya, M, Planned Economy for India, Bangalore, 1934.

2: National Planning Committee No.2, Being an Abstract of the Proceedings and other particulars relating to the National Planning Committee, Bombay, 1941, p.78.

3: Ibid, p.9.

4: The Bombay Plan was drafted in 1944 by a group of prominent Indian Business men, including J.R.D. Tata, Birla, ShriRam Lal Bhai, The Peoples' Plan was also drafted in 1944 by the leaders of Indian Federation of Labour.

Advisory Board was set up by the Interim Government immediately after independence, The All India Congress Committee appointed the Economic Programme Committee in November 1947. The Congress party resolution stated that our aim should be to evolve an economic structure which will yield maximum production without the operation of the private monopolies and concentration of wealth and which will create a proper balance between urban and rural economies. Such a social structure can provide an alternative to the acquistic economy of private capitalism and the regimentation of totalitarian State. In March, 1950, the Planning Commission was set up by the Government of India to prepare a plan for the most effective and balanced utilisation of the country's resources. Since then a number of Five Year Plans have been worked out and put into effect.

From 1951-52 when the first five year plan was launched the purpose and pattern of control became progressively enmeshed in the strategies and tactics of planning. While spelling out the role of controls, the First Five Year Plan noted that, although the allocation of resources could be influnced to some extent by appropriate fiscal, monetary, commercial policies, physical controls were also necessary, given the fact that, in the initial stages of development, it was excessive pressure of demand on a few commodities which tended to limit the rate of progress. The Planning Commission in fact suggested that the extent to which physical controls were resorted to for reinforcing financial controls might be regarded as a measure of the utilisation of surplus resources in the system.[1]

In all the plans that spell out goals for industrial development, the egalitarian ideology is prominent. Since the plans regularly focus on the economic aspects of development, they stress the equalisation of incomes and wealth and the more widespread ownership of the means of production. These objective can be achieved if the economic policy of the State is governed by the obligation placed upon it to secure that the citizens, men and women equally, have the right to adequate means of livelihood. For attaining these objectives, the Directive Principles of State Policy[2] enjoin that the ownership and control

1: First Five Year Plan, Government of India, Planning Commission, New Delhi, 1951

2: See, Indian Constitution, Directive Principles of State Policy, Article 39.

of the material resources of the country would be so distributed as best to subserve the common good, and that the operation of the economic system should not result in the concentration of wealth and of the means of production in a manner determinetal to the common good. Briefly, the Directive Principles visualise an economic and social order based on equality of opportunity, social justice, the right to work, the right to an adequate wage and a measure of social security for all citizens.[1] These ideals have informed all subsequent Five Year Plans. When Pandit Jawahar Lal Nehru presented the Third Five Year Plan to the Lok Sabha, he referred to this consistency in Indian Planning and reitrated that one of the objects to be served was the 'reduction of inequalities in income and wealth and a more even distribution of economic power.[2] In short the objectives of the Third Plan was to march towards the establishment of a socialist society in India where there will be justice, equality and individual dignity where economic organisation will be democratic, cooperative and largely decentralised, where the low income group will have a

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1: India, Govt. of Planning Commission, The First Five Year Plan- A Draft outline New Delhi 1951, p. 11.

2 : The Prime Minister, "Strategy of the Third Plan" India, Government of, Ministry of Information and Broadcasting, Problems in the Third Plan - A critical miscellany, New Delhi, 1961, p. 33.

better chance, production will be large, efficiency high, capital formation substantial, and the rate of economic growth and the pattern of investment such as to lead to the emergence of a self-subtaining and self accelerating economy.[1]

The role of the State Planning in reaching these objectives is perhaps very well decribed in the First Five Year Plan.

The problem ... is not one of merely re-channelling economic activity within the existing socio-economic framework; that framework has itself to be remoulded so as to enable it to accommodate progressively these fundamental urges which express themselves in the demands for the right to work, the right to adequate income, the right to education and to a measure of insurance against old age, sickness and other disabilities.[2] It is the essence of a planned approach that all these measures should be harmonised and brought to a focus in a manner that would ensure an enlargement of incomes and opportunities, at the lower end, a reduction of wealth and privilege at the upper end.[3]

1: Rao, V.K.R.V., "Approach to the Third Five Year Plan in the light of The Country's March Towards Socialist Society". Ooty Seminar, May 30, 1959, p.21-22.

2: India, Govt. of, The First Five Year Plan, New Delhi, 1952, p. 8.

3: India, Govt. of, Second Five Year Plan, New Delhi, 1961, p. 33.

In a planned economy, controls and regulations are generally aimed at stimulating, encouraging, facilitating and inducing production or consumption in a special sector which will ordinarily include compaigns encouraging investment, the provision of technical assistance ,subsidies,loans, holidays, credits on easy terms, the protection from foreign competitions. The negative controls, on the contrary are meant to prevent or limit production or consumption, restrictions on capital issues, investment and production,the denial of foreign exchange, the rationing of consumer goods and the imposition of excise duties or raising of costs by other means. A more important material qualification to be borne in mind is that controls may often be negative and positive at the same time. For instance, when the State prevents or restricts the imports of goods by means of exchange rationing, this is a negative control from the stand point of some importers but a positive control for indigenous industries. Hence, our policy of industrial development should include an elaborate system of stimuli and deterents intended to provide some guidance to private industrial activity[1]. This is all the more necessary

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1: Jan Tribergen, The Design of Development, Johns Hopkins Press, Baltimore, 1958, p. 50.

because there is a relative lack of entrepreneurial talent and training in the private sector.[1] Attempts to realise the ideals of social and economic equality and justice and welfare would also necessitate large scale government regulations and controls.

These controls are the levers of policy, the manipulation of which is needed to ensure that development proceeds from month to month and year to year as closely in line with the targets of the plans as is feasible in a context of change.[2] The main evidence of failure to complete the planning process is the absence of firm recommendations in the plans for the policy measures and regulations needed to implement it. Statement of targets and broad outlines of the sources of finance are not enough.[3] While policies intended to induce fundamental alterations in institutions are often discussed at length, controls and the way in which they are and should be handled are usually not discussed at all. Little attention is paid to such vital matters as the impact of government regulation and control in regard to interest rates and credit conditions in the capital market, the prices charged for services and products, and the licensing of industries etc. etc. In

1: Gunnar Myrdal, Asian Drama, op. cit., p. 717-18.

2: Gunnar Myrdal, Asian Drama, op. cit., p. 902.

3: Benjamin, Higgins, Economic Development, Boston New York, 1959, p.729.

particular, our economic policies and plans are silent on the crucial problems of how to achieve a rational coordination of controls so as they direct development towards plan fulfilment. It means that regulatory and control measures are not really planned in advance, but are improvised in an adhoc fashion.[1] Our planning is concerned mainly with aggregates and proportions of aggregates of investment and production in various field and their effects on other aggregates and proportions, particularly, national income in toto per head, savings, marginal savings, investment and employment. Facts about the controls and their applications are not systematically studied and analysed in the sense that several controls are seen to be interchangeable or that one control makes other controls necessary.[2] There are broadly speaking, two types of the techniques through which the planned objective in view have to be attained. Firstly, there is the overall regulation of private enterprise through fiscal and monetary policy and secondly, there are devices like export and import controls, licensing of industries, price controls and allocations which influence economic activity in particular

1: Gadgil, D.R., "An Approach to Indian Planning," Economic Weekly, July 1961, p. 1131

2: Gunnar, Myrdal, Asian Drama, op. cit., p. 903.

sectors or sub sectors of the economy.

In the absence of planning, the tendency on the part of private sector industries would be to go in for investments which promise the maximum benefit. Conformity to the plans should be sought not by regulatory measures, such as capital control, licensing, foreign exchange regulation and import control measures, but by fiscal and monetary devices.

The regulatory measures can not be wished away if growth has to be combined with social justice. But that should not blind us to the problems they creat and the disadvantages they give rise to. The successive measures of control which an investment proposal has to pass through introduce not only an element of dialatoriness, but that of uncertainly. The element of discretion vested in the various control authorities is substaintial and this together with the complicated and time-consuming procedural rules has provided opportunities for graft and corruption. No wonder that in this state of affairs, it is only the big and established entrepreneur who is at an advantage over the uninitiated and the new entreprenuer.

In addition to some restrictive clauses in the measures of government regulations and controls on industry, through industrial licensing or otherwise, a number of other purposes have also been included to the list. They include promotional programmes such as reservation of industries for development. in the small scale sector and dispersal of industries among various parts of the country so that there could be balanced regional development or encouragement given to the industrial advancement of the economically backward areas and priority attention or even privileged treatment to manufacturing activities which are geared to export promotion or import substitution. There has all along been a broad national acceptance of the policy of industrial controls although the details have been criticised particularly in terms of their administrative shortcomings. There has even been a positive enthusiasm on the part of the public opinion for the bias imparted to these controls towards the promotion of the small scale industries sector or the encouragement given to balanced regional development of industries. More recently, however, a controversy has been developed over a new emphasis which is being given to the regulation of industrial expansion. The debate here is centred in the Government's proposition that, for the purpose of reducing inequalities of income or wealth, or combating the concentration of economic power in a limited number of big industrialists or their family groupings, the state should deny industrial licences to the larger business houses except in the areas of what has been called the core sector of industries, where the enterprise or the managerial know how of big business could serve the cause of the rapid industrialisation of the country. Additionally, a Monopolies Commission has been set up to administer a special piece of legislation called the MRTP Act and screen application for industrial licence from the larger industrial houses. The big business house are, therefore, protesting against this policy which is responsible for obstructing new industrial activities on the part of the larger business houses even in areas already ear-marked, namely the 'crore sector industries'.

Al these influences are imparting a new dimension to the whole issues of economic controls. The emphasis is shifting from the Government being a mere regulator of production, distribution and prices to that of undertaking increasingly the role of producer and distributors

Moreover, certain weaknesses and defects, as have developed over the years in the framing or administration of policies of controls have become quite obvious. There has been, to start with, a considerable waste of national resources. This has been largely because the administration of various economic controls has involved an explosive expansion of the bureaucracy at all levels. As a result, the capacity of the fiscal machinery of the Government to mobilise public savings and plough them into development has been badly affected. Apart from capital formation being thus adversely affected an equally precious development resources namely, time has been similarly squandered on the largely negative purpose of controls and regualtions. Although a number of committees and commissions have gone into the question of streamlining control procedures, particularly in the areas of industrial licensing, the improvement actually gained has been far from satisfactory. Perhaps even more demoralising has been the enlargement of the scope of corruption and bribery in administration.

CONCLUSION:

In conclusion it may be observed that controls are inherent in a planned economy. The nature and pattern of economies may be distinguished by studying the nature and character of controls under them. In an economy where controls are large in number and severe in their effects, planning is said to be strict. When controls are small in number and less severe in their effects, planning is supposed to be more democratic and less strict. Controls in a planned economy do possess an important position and success of economic planning depends largely upon their proper implementation. The nature of controls in a planned economy also determines the degree of economic freedom. A study of the nature and significance of these controls in our economy is, thus, quite relevent. In the next chapter, an attempt has been made to examine the different methods and techniques of government regulations and controls.

CHAPTER - III

CHAPTER - III

TECHNIQUES AND METHODS OF GOVERNMENT REGULATIONS AND CONTROLS

In the previous chapter it has been seen that government intervention in the operation of the economy is necessary to ensure various objectives like channeling the scarce resources into the most desirable areas of investment, holding the price line in the interests of vast majority of the population, redressing excessive regional imbalance in industrial development etc. There exists in India a substatial private sector for which a large field of operation is left open, in terms of the 1948 and 1956 Industrial Policy Resolution and the present industrial policy of the Government. In the absence of total nationalisation, therefore, the tools of states intervention in the operation of this important sector of our economy are the various controls. It is necessary to view the working of these controls in the perspective of the growth and development of our industrial policy and of the pattern of our industrial expansion in the private sector. In this chapter, an attempt has been made to analyse these controls and the way in which they should be handled. In particular, the chapter will be directed to examine the crucial problem of how to achieve a rational coordination of controls so that they are able to direct industrial development towards plan fulfilment.

If a Government decides that a policy of laissez faire is not conducive to the best interests of society and that the government must by some means seek to control private enterprise such control may take several forms. There are many methods of control, but these can be roughly divided into two large groups. Although it is difficult to find terminology which will accurately designate each of these large groups, we shall call one group 'legal' methods of control, the other group we shall call 'economic' methods of control.

In a legal method of control and regulation, the government lays down rules of conduct which private sector enterprises must follow and then provides for the enforcement of these rules.

In the case of an economic method of control and regulation the government instead of laying down rules and regulations, which private enterprises must follow, under-takes the ownership and operation of certain industries.[1] In India, we have employed a variety of controls. These have been described by various adjectives[2] and classified in various ways-direct and indirect, discretionery and non-discretionery, formal and informal, physical and non-physical, enabling and disabling, positive and negative etc. It should be our endeavour to first bring together the various classifications in an orderly scheme and envolve a definition of controls and regulations before we meaningfully discuss their impact on industrial expansion in the country.

1: Ford P. Hall- Government and Business, Third Edition, Second Impression, New York, Mc Grawhill Book Co., 1949, p.46.

2: Gunnar Myrdal makes two kinds of distinctions, First the classified controls into positive and negative. The positive controls are aimed at stimulating, encouraging, facilitating and inducing production or consumption, generally or in a special sector. In regard to enterprise, investment, and production, the positive controls include educational compaigns arrived at clarifying the business situation and encouraging investment, the provision of technical assistance, subsidies, tax holidays and credits on easy term, the setting of low prices on products and services from the public sectors. The negative controls, on the contrary, are meant to prevent or limit production or (,) consumption by means of bullying, administrative restriction

Controls of private enterprise and its regulation by the Government has led to some misgivings, delay, uninformed interference in the sound economic dicisions of the private enterpreneurs, corruption etc. In fact, such allegations did lead to the setting up of the Swaminathan Committee in 1963 to review the operation of controls appliwable to the estableihment of additional industrial capacity under the Industries (Development and Regulation) Act, the import of capital goods, the issue of capital investment and collaboration and to suggest modifications as would reduce delays in decisions.[1]

Also, there was the apprehension that the control of private enterprise had failed in preventing concentration of economic power which led to the appointment of Hazari Committe with many adverse findings.[2] The operation of the controls by bureaucrats has been made extremely difficult and perforce what arbitrary by the fact that the plan documents, beside

(*): on capital issues, investment and production, denial of foreign exchange, the rationing of co goods, and the impositions of excise duties, o raising of various costs by other means (See, Myrdal, Asian Drama, p. 903).(**)

1: Swaminathan T., Report of the Industries De Procedures Committee, Ministry of Industry, India, New Delhi, 1964.

2: Industries Planning & Licensing Policy-Fi Planning Commission, Govt. of India, New stating concepts such as 'economic and social justice' have left the methodology very vague, and have stated no criterion for the administration of controls. In the event, a number of policy decisions had to be taken as they arise, leading to delay in dealing applications. Although, the Second Five Year Plan did stress that each control has to be viewed as part of a system[1], in practice, this was very difficult to achieve. In recent years there has been a move away from physical controls, witness being the decontrol of output and prices in many private sector industries, raising limits in some and delicensing in others.[2]

GROWTH AND EVOLUTION OF CONTROL MECHANISM:

During the second world war the purpose of the controls imposed on business and industry was to contain the inflationary trends in our economy. Though the elaborate system of controls was essentially restrictive and negative, it served the purpose of squeezing out the saving of the people and mobilising the resources

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(**): He also classified controls into discretionary and non-discretionary controls and says: "Another distinction between controls over the private sector, whether of positive or negative type, relates to the way they are (***)

1 : Second Five Year Plan, Planning Commission, Government of India, New Delhi, 1956.

2 : Recent Speeches by the former Minister of Industries, Govt. of India, Mr. T.A. Pai, (See Indian Express, New Delhi, September 20, 1975.)

for financing the war efforts. This was the first phase in the use of controls in our recent economic histority. The nature and pattern of controls imposed during this period greatly affected our thinking and attitude on the methods and techniques of controls adopted in succeeding years. The second phase of controls relates to the post-independence period, roughly, starting with the announcement of industrial policy of 1948. It was during this period that our policy regarding controls over private enterprise was given a statutory recognition and necessary organisational base. The process received an imptus with the promulgation of our constitution in 1950 and the launching of the planning era in 1951.

There are no two opinions about the fact that the primary concern of controls initiated after 1951, was to use these controls as instruments of policy to help in the implementation of the social and economic objective of the planned growth and development of our economy. In the implementation of our Five Year Plans, a number of controls played an important role. It was during this period that some earlier control measure, like capital issues control, import and export control, foreign

(***): appied. If their application involves an individual decision by an administrative authority with power to act at its own discretion, they are considered (****)

exchange regulation etc. were given a new orientation, while a battery of new regulatory measures were installed. Prominent among them were the measures relating to the licensing, the management of companies, and their financing and investments, fiscal and monetary controls, monopolies and restrictive trade practices, policies of taxation etc. In the context of the above discussion of the growth and development of controls, the stage has now been reached for an analysis and assesment of the controls and their relative efficiency and adequacy. It is, therefore, necessary to view the working of these controls in the perspective of the growth and development of an industrial policy and of the pattern of our industrial expansion. An attempt has been made to discuss them in detail in the following pages.

IMPACT OF INDUSTRIAL LICENSING:

Industrial licensing is one of the important physical controls exercised by the government and on which our government seems to depend most. Licensing involves authorisation of imports, controls on the distribution of raw materils, controls regarding

(****) : discretionary: If the application follows automatically from the laying down of a definite rule, or from induced changes in prices, the imposition of tariff duties or excise duties or the giving of subsidies to a particular branch of industry with out the possibility of discrimination in favour of particular firm, the controls are presumed to (contd) the location of industries and controls of the directions of investments. Through licensing, the government assumes that future industrialisation shall conform to the pattern of industrial development which it has set forth in its five year plans, industrial policy, and Industries (Development and Regulation) Act, 1951. The industrial policy resolution of 1956 which defined and clarified the earlier industrial policy of 1948 lays down the government's approach towards industrialisation. It classified the industries into three categories. The first is of industrie whose future development would be the exclusive responsibility of the states. These industries have been listed in Schedule 'A' They include in adition to arms and ammunitions, atomic energy, rail and air transport and such basic industries as power, iron and steel, coal and lignite, heavy electrical and mechanical machinery, basic minerals and petroleum, aircraft and ship building. All units in these industries, save, where their establishment in the private sector has already been approved will be set up only by the state. The second category is of industries for the development of which the state is expected to take the

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(*****): be nondiscretionary. (See Gunnar Myrdal, Asian Drama, p. 904.

initiative but in which private enterprises is expected to supplement the efforts of the State. These industries are listed in Schedule 'B'. This is, thus, the area of mixed sector where public and private enterprises meet. Included in this Schedule are such industries as road and sea transport, coke, alloy steels, machine tools, aluminium, fertilisers, basic and intermediate chemicals, chemical pulp, antibiotics, synthetic rubber etc. The thrid category, with which we are concerned in this study comprises all other industries not specified in Schedule 'A' and 'B', the further development and expansion of which is left to private enterprises. In respect of such industries the State is expected to facilitate and encourage their development through private enterprise by insuring the development of power, transport and other services and by appropriate control measures. Thus, the industrial policy clearly shows that the state is to play a positive and premotional role in the development of private enterprise. The division between private and public sector has been made on the basis of pregmatic consideration of the needs of economy. There is no destrinaire seal to oust private enterprise from certain fileds or to place the private and public sectors in watertight compartments . Not only is there going to be an area of overlapping but also a great deal of dovetailing between industries in the private and public sector.[1] In appropriate cases, privately owned units may be permitted to produce items falling in schedule A. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector.[2]

The industrial policy of the Government is implemented through the Industries (Development and Regulation) Act, 1951. This Act sets up the administrative institutions for coordinating the energies of the private and public sector, with a view to utilising the limited local and foreign exchange resources of the country for maximum industrialisation. The industries which are subject to government regulation have been listed in first schedule. This is changed from time to time by legislative

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1: Recent concepts of joint sector and national sector are an indicator of this thinking.

2: Eleven industrial licences were issued for pig iron between July 1962 to October 1964. Similarly five licences for local between May 1961 and March 1965 and three for heavy electricals between September 1961 and August 1963 were issued even though the industries were listed in Schedule A. On the other hand fertiliser which is listed in Schedule 'B' was not opened to the private sector for many years. The need to encourage private enterprises to enter into areas reserved for the public sector was (*)

amendments. Substantial changes were made by 1953 and 1967 amendments. The most recent amendments recorded the list of non-ferrous mental by specifically singling out gold and their alloys.[1] Thus the industries (Development and Regulation) Act is the major device in the hands of the Government for implementing and articulating the industrial policy. The general scheme of the Act is the regulation of the scheduled industries through (i) the registrations of the existing industrial undertakings[2], (ii) the licensing of the establishment of new undertakings[3], (iii) periodic investigations into the operation of the private industrial undertakings with a view to ensuring their working in conformity with the policy and standards laid down under the Act[4], (iv) the power of the Central Government to issue directions to private industries[5], (v) the assumption of management and

(*): stressed by the Estimate Committee (See Estimate Committee Report of the Minutes 1961, of the sitting relating to 122nd and 123rd Rep.(2nd L.S.), p.16.

1: Section 2, The industries (Development and Regulation) Amendment Act, 1962, published in the Gazette of India, Extra, Part-III, Sec.I. dated 17th September,1962.

2: Section, 10,The Industries (Development and Regulation) Act,1951 as amended in 1962.

3: Ibid, SS 11,II A and 13

4: Ibid., SS ,15

5: Ibid., S ,18 A.

control of the industries by the government under certain circumstances,[1] and (vi) the control of supply, distribution and prices of the production of such industries.[2] The Government determines the pattern of industrial development and expansion with the help of these powers. Government regulation is also exercised through licensing and registration of the undertakings and through administrative supervision of the private industrial undertakings with a view to ensuring their compliance with the terms and condition of the licence. The planning of future industrial development on sound lines is also sought to be secured through licensing of industrial expansion. It is through licensing that Government exercises control over the location, expansion and setting up of private industrial undertakings with a view to channel investments into the desired direction, promote balanced regional development, protect small scale and cottage industries and prevent concentration of economic power in a few hands. For licensing purposes, the Industries (Development and Regulation) Act, 1951 requires the owner of every existing industrial under-

1: Ibid., 3, 18 A.
2: Ibid., 3, 18 G.

taking within such period as the Central Government may, by notification in the official Gazette, fix in this behalf with respect to industrial undertakings generally or with respect to any class of them.[1] The Central Government had fixed the period of eight months from Ist March 1957 as the period within which the owner of every such industrial undertaking shall register his undertakings.[2] Upon such registration the owner of the undertaking is given a certificate of registration containing such operations as may be prescribed.[3] The Act forbids the establishment of a new industrial undertaking by any person or authority other than the Central Government except in accordance with a licence issued in that behalf by the Central Government.[4] The owner of an industrial undertaking which is registered or in respect of which a licence or permission has been issued shall not produce or manufacture any new article without obtaining a licence for producing and manufacturing such new article or getting his existing licence amended so as to have authorisation

1: The Industries (Development and Regulation) Act, 1951 as amended in 1962, Sec. 10(1).

2: Notification No. S.R.O., I.D.R.A., 30.1.1957 dated 1.3.1957

3: Industries (Development and Regulation) Act, 1951, op. cit., Sec. 10(3).

4: Ibid., Sec. 11.

for the producing or manufacturing of such new article.[1] Similarly the owner of an industrial undertaking which has already been authorised under the Act shall not effect any substantial expansion of the industrial undertaking except under, and in accordance with a licence issued in that behalf by the Central Government.[2] A licence or permission may contain such conditions including in particular, condition as to location of the undertaking and the minimum standards in respect of size to be provided as the Central Government may deem fit to impose in accordance with the rules under the Act.[3] The Act provides punishment for those who continue to operate their industrial undertakings without having them registered or open new undertakings without obtaining a licence.[4] The Central Government may revoke the registration of any industrial undertaking if it is satisfied that it has been obtained by misrepresentation as to an essential fact or if the undertaking has ceased to be registerable under the Act by reason of its being included

1: Industries (Development and Regulation) Act, 1951, op.cit. Sec. 11 (A).
2: Ibid., Sec. 13 (1)d.
3: Ibid., Sec. 11 (2)
4: Ibid., Sec. 24.

within the exemption granted und_r the Act or if the registration has come useless or ineffective.[1]

The Central Government may revoke a licence if the entrepreneur has, without a reasonable cause, failed to take effective stepts to establish the new industrial undertakings[2]

Besides, the licensing committee which makes final recommendations on application for industrial licences, there are two other important bodies which play no less important role, though indirectly in the decisional process. They are the Central Advisory Council and the Development Council. The licensing committee consists of one or more representatives, of each of the Ministeried of Industry,and Supply, Railways, Finance, Steel and Mines and Labour and Employment and production and of the Planning Commission.[3] The representative of the Ministry of Industry and Supply is the Chairman of the Committee.[4] The Committee is entrusted with the function of making a report on an application for a licence after such investigation as may be necessary.[5] The Central Advisory Council was set up in 1951 at the start of the first Five Year Plan, consisting of member.

1: Industries (Development and Regulation) Act,1951,op.cit.,S 10.
2: Ibid., S 12
3: Ibid;
4. Ibid
5.Ibid.,Rule 11 & 12.

representing owners, employees and consumers of the scheduled industries. The Council operates with a standing Committee that meets periodically with the Govt. at the ministerial level to offer advice and recommendations on such matters as steps to increase export, ways to alleviate the power shortage, and other pressing problems of economic development. For more important is the role played by the Development Councils in the formulation of industrial licensing policy. These Councils are appointed by the Central Government for any scheduled industry or a group of scheduled industries.[1] The Development Councils perform such of the following types of function as may be assigned to it by the Central Government.

(i) recommending targets for production, coordinating programmes and reveiving progress from the time to time, (ii) suggesting norm of efficiency with a view to eliminating waste, obtaining maximum production, improving quality and reducing costs, (iii) recommending measures for securing the fuller utilisation of

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1: Industries (Development and Regulation) A-ct Section 6(1).

the installed capacity and for improving the working of the industry, particularly of the less efficient units, (iv) promoting arrangement for better marketing and helping in the devising of a system of distribution and sale of produce of the industry which would be satisfactory to the consumer, (v) promoting standardisation of products, (vi) assisting in the distribution of controlled materials and promoting arrangements for obtaining materials for the industry (vii) undertaking enquiry as to materials and equipment and as to methods of production, management and labour utilisation, including the discovery and development of new material, and improvement in those already in use, the assessment of the advantages of different alternatives and conduct of experimental establishment and of tests on a commercial scale, and (viii) advising on any matters relating to industry (other than remuneration and conditions of employment) as to which the Central Govt. may request[1].

1: Industries (Development and Regulation) Act 1951 as amended in 1962, Section 6(4) read alongwith the Second Schedule appended to the Act.

The Development Council is an important instrument for ensuring that private industry conforms more and more to the planned pattern of development. It helps the Govt. to formulate its regulatory and licensing policies.

Although the registration and licensing of industrial undertaking rules lay a period of three months within which decisions should be taken on applications to industrial licences[1], this provision in practice has remained inoperative. The Swaminathan Committee observed that in respect of 8 cases selected at random for case study the time taken ranged from 61 to 396 days, in 6 out of the 8 cases the period involved was more than 150 days.[2] Mr. J.R.D. Tata, an industrialist of repute, pointed out that it took nearly two years to get an industrial licence in India.[3] The Estimates Committee reported that the average time for each application was five months.[4]

Industrial licensing as it is done today is not based on any careful planning. There have been lot of short comings. To overcome these lacunas, the Govt. of India in 1963 appointed a

1: Estimates Committee op. cit. 123rd Rep. (2nd L.S) p.24 1960-61
2: The Report, Supra n.73 at p.8.
3: The Times of India, January 4, 1969, p.4 Col. 5,6
4: Estimates Committee, op. cit. 123rd Rep. (2nd L.S) p. 17 (1960-61)

Committe under the chairmanship of Mr. Swaminathan to review the procedures relating to the operation of the controls and to suggest such modifications as would reduce delay in decisions.[1]

The most important recommendation of the committee was that two applications might be submitted to enable the issue of letter of intent and the other final application at a later stage, at the time of the issue of a formal indistrial licence.[2] Dr. Hasari's report on industrial licensing has also made some radical suggestions for reducing delay in licensing. These suggestions pertain not only to procedure but also have a bearing on the licensing policy in general. It recommended that the exemption limit for new undertaking should be raised from Rs. 25 lakhs to 1 crores, and that for substantial expansion it should be Rs. 25 lakhs or 25 per cent of the existing investment in capital equipment.[3] Dr. Hasari in his report has enumerated some additional defects of the licensing process.[4]

1: Gazette of India, Extra Ordinary part I, Section I dated the 24th September, 1963.

2: Final Report of the Swaminathan Committee, Supra n, 73, p.3.

3: R.K. Hasari, Industrial Planning & Licensing Policy, Final Report, Govt. of India, Planning Commission, New Delhi, p.25

4: Indian Express, New Delhi, September 20, 1975, p.4

In view of the failure of the licensing system as an instrument of channelising private investment and preventing the concentration of economic power, either industry wise or regionwise, there is a definite trend towards delicensing and loosening of controls. In May 1966, about 11 industries including iron and steel casting and forgings, iron and steel structural glass,cement etc. were delicensed. In November 1966, 29 more industries were delicensed. In February 1968, agricultural tractors and power fillers were placed on the exempted list and later in June, Steel billets or ingots and all barium salt and compounds were added to the list, Vanaspati industry was also an important addition. Recently the Ministry of Industry and Supplies is drawing a long list of industries which will be totally exempt from licensing regulations and restrictions[1] Elaborating on the type of industries that are proposed to be included in the list for delicensing, Mr. T.A. Pai, the former Miniter of Industries and Supplies remarked, " What is the harm in allowing, say, cotton spining mills with a capacity of 40,000 or 50,000 spindles? What is wrong in freely promoting agro based industries or paper?" He also argued that delicensing

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1: Indian Express, New Delhi, September 20,1975, p.4

would stimulate investment and promote industrial growth in the priority sectors.[1]

On the face of it, the measure looks like a big act of liberalisation. Thus, medium entrepreneurs are free to do what they like - set up new units, expand the existing ones, etc. in any of the 21 delicensed industries. But, they can do so only if they manage with indigenous machinery and equipment and need no imported raw material whatsoever.

Further, in the case of 30 industries, all industrial units including those run by MRTP houses and foreign majority concerns, are allowed to increase production to the extent possible with facilities already installed. Here again, no additional imports can be asked for. And, in the case of MRTP houses and foreign majority concerns there is a further important condition, namely, that the additional production should be either exported or sold acceding to the directions of the Government. But the field reserved for small-scale industries is kept intact and nobody can encroach on it.

If one judges only by the extent of liberalisation as indicated by the range of industries covered, the reform can be

1: Indian Express, New Delhi, September 20,1975, p.4

said to be very impressive. But the conditions attached are such that in the present circumstances the practical effects in the short term may not amount to much. But this does not detract from the value of the reform. The reason is simple. Our industrial licensing arrangements have become like dense forest through which it is difficult to fined one's way. In the unhealthy shade of its foliage nothing can grow underneath. Therefore any liberalisation should be welcome.

The time chosen for this reform is appropriate in the sense that earlier under conditions of widespread scarcity, it might not have been politically possible. For the same reason however, the immediate concrete results may not be much. When people were keen to go a head with the new enterprises and expansion and only the licensing system was standing in the way even the removal of some curbs would have given quick results. But today, nobody is straining at the leash. On the contrary, many industries cannot find markets for what they produce. It is in fact this problem which has become the main current preoccupation of both industry and Government. In this situation, the importance of mere permission to go ahead with new ventures and increased ... ...

production is largely symbolic.

But what is at present mainly symbolic may become of real importance for increasing production, and even more for *increasing the efficiency of production, if the logical consequences* are accepted and there is no hasty retreat when these consequences begins to show up. Let us take some examples from the list of the 21 delicensed industries, say machine tools and refractories. In both these industries there is a lot of unused capacity in the sense that many of the units do not have enough orders to keep their machines and men anything like fully employed. At the same time, some machine tools and some refactories have still to be imported and with good reason. This is simply because, in spite of utilised capacity, nobody is able to make certain types of machine tools and refractories which are wanted, while there is not enough demand for the kind of machine tools and refractories they can and want to manufacture.

Further, all units in the industry are not uniformly idle. some, presumably the more efficient units who can make goods which are wanted, have more orders than the other. In what circumstances then, in such a situations will an entrepreneur want to set up a new unit in these industries? Only someone who is confident, through technical change or higher productive efficiency, of making better or cheaper goods, or making those which are not manufactured now. If this confidence is justified, the new unit may certainly make good, but will probably do so by taking away orders from the existing units. Some of the later thus adversely affected, will be spurred to greater efficiency and may recover their position. But others may not. One of the logical and predictable consequences of delicensing is exactly this kind of internal competition. It will be of course beneficial to the community at large. But it will also cause, for a time, distress and even unemployment in the weaker units unable to face the competition offered by more productive units.

Almost certainly, these units will set up a howl and Lobbies pressure groups will be built up to demand special assistance for their survival by well known means such as differential excise duties, reservation of markets, preferential treatment in making supplies to Government, particularly to the local governments, and restrictions on the operation of the more successful units. In the past, such lobbies and pressure groups have always had considerable success. If these are to be repeated in future, the new policy will have been virtually killed at birth.

This has happened before almost exactly in this fashion in 1968 when some industries were delicensed, among them sewing machines. Within a matter of months, through pressures from group calling themselves small industries, we went back to licensing. Similarly, in 1966, an announcement that price control on cement would be lifted created so much resistance from units that feared they would be hit that the announced measures were not put into effect at all.

A study of list of delicensed industries would show that such memories have influnced the selection. Thus, industrial sewing machines are delicensed but not surgical instruments. Only paper made out of agricultural residues and waste is delicensed but not paper made from the normal raw material.

The treatment of the cotton textile industries is also charatrised by curious restriction. New spinning units should not be less than 25,000 spindles capacity, presumbly to see that uneconomic units are not set up. Why then is capacity restricted to 50,000 spindles?

The treatment proposed for the other list of 30 industtires stand on a different footing. Here, there is no question of delicensing. The object is more production from existing facilities including those with foreign and MRTP companies. The list included important lines of industrial production like iron and steel casting, power equipment, automobiles and tractor (except motor cars and curiously, also motor cycles) machine tools earth moving equipment, fertilisers a variety of chemicals, paper, cement and basic drugs. All units will now be permitted the help of existing equipment and indigenous raw materials.

If nothing more had been said one could acclaim this policy without any reservation. But this is too much to hope for. Hesitations appear in the shape of two restrictions which apply across the board in the case of larger houses and foreign majority concerns. The additional production has either to be exported or sold in accordance with the directions of the Government. The first kind of restriction is unnecessary and if righty applied, is likely to be self defeating. The considerable measures of internal competition which will at once be generated by conditional permission to produce what is possible will itself encourage export. But to ask that every single unit should export the entire additional production is asking for the moon. The cautions would rather do nothing rather than risk flouting the law. Other would choose to ignore the matter. There is already sufficient experience of the working of export obligation to show that rigidity is neither worthwhile nor practicable. A better way would be to encourage those who actually export. The pressure of internal competition together with such incentives will lead to far better and quicker results.

The other restrictions, namely, that additional production (not exported) should be sold in accordance with the direction of the Government may be much less op n to objections if the directions of the Government are reasonable and clearly made known in advance. If Government wants an option to determine or have a say in the disposal of the additional production, and if such option is not to defeat the main object, it should take some such shape as follows. It can be stipulated that a specified proportion of the additional production should be sold either to Government or Government nominees at a prescribed price. This price should, however, give some profit to average unit in the industry. At any rate, it should not mean a loss. Secondly, there should be clear time for the Government or its nominees to lift the goods and pay the price. This practical point is of great importance because whenever this type of measures had been tried in the past, the lifting of goods and payment for them has always been irregular and tardy. Needless to say the proportion reserved and the price formula, if not the price itself, should be clearly announced in advance and should not be altered without adequate notice.

So long as production is enough or in excess of current demand, this right of Government will have little practical importance. Going through the list of 30 industries one can see that in the case of most of them, there is at present hardly any shortage in relation to demand. If any thing, the opposite is the case. A relative shortage may emerge later in nitrogenous fertilisers. Some paper products and some basic drugs; but even this is not on the cards at the moment. Therefore, nothing will be lost if Government clarifies the situation by announcing that its option on additional production will be exercised only after giving sufficient advance notice of the conditions and prices.

It is noteworthy that basic drugs have been included in both the lists. This means that Indian medium enterprenurs can set up new capacity, and all existing units can produce as much as they can. In this industry at least there is no deficiency in demand. The new policy can, therefore, bring in beneficial results quickly, if there is no rigid insistance on one of the conditions, namely, no import whatsoever of equipment or materials. The setting up of new capacity will not be possible without some import of equipment. The additional production may also need marginal imports. But the quantities involved, in either case, will be small, because even now the proportion of the imported materials to total production is well below ten per cent.

To conclude, changes in industrial policy, even liberal changes, can not work in vacuum. They have to be supported by the corresponding changes where necessary in price policy, credit policy and so on. Just because this is so obvious, it tend to be overlooked in practice. Above all confidence has to be created that the new policies will be steadfastly pursued and there will be no retreat.

Licensing is not the exclusive device of government regulation and control of private enterprise. It is only one of the devices. It must be seen in the totality of various control measures which the Government may employ for that purpose.

The Capital Issues (Control) Act, 1947 requires the Central Govt.'s consent to the issue of capital by the companies. The object of the Act is to foster a rational and healthy growth of the corporate sector by ensuring that investment does not go into channel which are wasteful and contrary to the objectives of the plan. The Import and Export (Contols) Act, 1947, empowers the Central Government to prohibit or restrict import into and export from this country. The Foreign Exchange (Regulation) Act, 1950 prohibits, unless the Reserve Bank of India, grants general or special permission, dealing with foreign exchange, making payments to persons not resident in India, importing or exporting gold and silver bullion and certain currencies, and transferring securities to persons not resident in India. The purpose of these regulatory measures is to conserve and utilise most fruitfully the scarce foreign exchange resources of the country. The control over the essential commodities in respect of their prices, distribution, supply etc. is exercised mainly under the Essential Commodities Act, 1955. The Companies Act, 1956 as amended upto date enables the Govt. to exercise control over companies with a view to safe-guarding the interest of shareholders, ensuring proper conduct by the management and maintaining a minimum standard of good behaviour and business honesty in company administmation. The purpose of the Monopolies and Restrictive Trade Practices Act is to control concentration of economic power in a few monopoly or large houses and regulate monopolistic trade practices.

In the following pages these regulatory and control measures will be discussed seprately.

CAPITAL ISSUES CONTROL: The capital issues control was first introduced in 1943 as a war measure. This meant an exercise of the check on the non-essential use of the scarce resources and their diversion and employment to the more essential, that is, defence purposes. After the war, however, the control was continued and in 1956 the Capital Issues Control Act was placed permanently on the Statute Book. Thus, the capital issues control became part and parcel of planned industrial development of the country promoting investment interest in the corporate sector, with due safeguards for the common investor and also ensuring broad based shareholdings in the maximum possible number of companies. The main object of the control measures is the regulation of balanced investment in all sectors of the economy in accordance with the priorities laid down in the Five Year Plans. But while the licensing of various industries in accordance with the plan targets laid down in the Five Year Plans is being cared for by the Industries (Development and Regulation) Act, the financial aspects of the concerned projects have been the area of capital issues control. This has involved two things primarily, one, the regulation of the financial structure of joint stock companies and, the other, the, protection of the interests of the investing public. So far as the first objective is concerned, the control has evolved some sound principle for the healthy financial structure of joint stock companies. For example the control has been guiding the companies to conform to a capital structure with an equity preference ratio of 3:1 so as to ensure that the capital structure is not looked with a preponderance of fixed interest bearing securities to the chagrin of the equity shareholders. Another principle which has been evolved is that the total long term borrowing of a company should normally not be more than double the amount of share capital and resources. Or, where the securities are issued by a company for taking over an existing business or asset, the takeover should be affected at book value or a proper valuation certificate must be produced. This is with a view to avoiding giving undue advantage to the seller. Similarly, either the securities may be issued at par or premium, but in case of latter, it has been laid down that the amount of premium shall be fixed only with the approval of the controller of capital issues. Whenever the public are first asked to subscribe to the share capital, the initial promoters, directors and their friends are required to put in a part of the capital in the enterprise to share the risk. The principles are mainly to protect the interest of the ordinary investors who part with their money for purposes of profitable investment but do not, or are unable to take part in the practical management of the company.

There are certain allied matters also with which the capital issues control has been associated. For instance, it has been able to pursuade a number of 100% foreign owned companies to associate Indian capital, for example, Hidustan Lever, Guest Keen Williams, Indian Oxygen, Glaxo, Pfizer, Goodyear, Brookebond The Gramophone Company, Avery of India, Associated Electrical Industries etc. The premia determined by the capital issues control in consultation with the foreign companies have been considered fair and reasonable in every case not only in protecting the equity interest of the foreign shareholders of these companies but also by the common investors in India, who found investments in these companies as a sound and attractive proposition. Another method through which the control may be said to have protected the interests of the ordinary investor has been the regulation of ratio of the valuation of the shares of the merging companies. When applications for issue of capital for such mergers are received, the control sees to it that the ratio of exchange of the merging company's shares for the merged company's shares is a reasonable one.

An idea of the achievement of the objectives by the capital issues control can be obtained from the following date relating to applications disposed and approved by the controller from

1960-67 for non government companies as shown in the table below:

TABLE NO.1 (III)

Statement of Approvals by Controllor of Capital Issues

Year	Applications disposed of		Consent granted	
	No.	Amount (Crores of Rs.)	No.	Amount (Crores of Rs.)
1960	290	151.96	277	150.13
1961	551	202.06	355	185.06
1962	410	227.39	397	219.45
1963	377	251.38	344	237.57
1964	221	228.02	201	224.80
1965	166	167.79	154	166.50
1966	796	278.70	785	277.54
1967	389	104.17	379	102.99
	3,000	1,611.47	2,872	1,564.04

SOURCE : Office of the Controller of Capital Issues.

It is clear from the above table that for the eight years 1960-67, out of a total application for Rs. 1611 crores considered by the Controller, for Rs. 1,564 crores, consent has been granted, leaving only a smaller amount of Rs. 47 crores not being consented to. In addition, the entire amount for which no objection was asked for in 1967 has been granted. Moreover, since even a part of the consented amount is not actually issued it would appear that the controller of capital issues is not standing in the way of companies from issuing capital.

CONTROL OF COMPANIES UNDER COMPANIES ACT, 1956: The growth of companies in the past gave rise to the concentration of economic power in a few hands. The Monopolies Inquiry Commission has stated that there exists country wise as well as product wise concentration of economic power.[1] The Vivian Bose Enquiry Commission found that the management of Dalmia-Jain Group of companies indulged in all sorts of malpractices, manipulations of accounts unjustified transfer and personal use of fund and assets. The money subscribed by the investing public to these companies were to a considerable extent not used in the best interest of the companies concerned but for the ultimate personal benefit of these who controlled and managed them.[2] Such selfish motives and monopolistic practices instead of serving the interests of the public, have become anti-social. In the midst of such anti-social element, the question of industrial expansion for the purpose of raising the standard of living and productivity is made highly complicated. This has been rightly emphasised by

1: Report of Monopolies Enquiry Commission, New Delhi Govt. of India, 1965, quoted by Nafees Baig - Pattern of Company Management, Aligarh, Navman Prakashan, 1971, p.2

2:-Report of the Vivian Bose Commission of Inquiry, New Delhi Govt. of India, 1962, p.53.

the Monopolies Commission which has recommended the regulation and control of joint stock companies so as to ensure based ownership and control, diffusion of enterprise and extended facilities to new and small enterprises.[1]

As a result of the findings of various committees and commissions, various regulatory measures were enacted to check the malpractices of the corporate sector. For instance, the companies Act, 1956 was passed and subsequently amended to include important provisions of regulation and control. These underline the urgency for efficient working of the corporate sector to adjust the structure and methods of the corporate form of business management with a view to weave an integrated pattern of relationship as between promoters, investors and the management so that (1) the efficiency of corporate sector may be increased as measured by the socio-economic objectives as enunciated in the Consitution which lays down that the ownership and control of the material resources of the country are so distributed as best to subserve the common goal and the operation of economic system does not result in the concentration of wealth and means of production to

1: Report of the Monopolies Inquiry Commission, op. cit., p.143.

the common deteriment[1],

(ii) that the managerial efficiency be reconciled with the legitimate rights and interests of shareholders, workers, consumers and other parties; and (iii) that the attainment of the ultimate ends of economic and social policy, including labour relations may be helped and not hindered by the manner in which the corporate form of business organisation works in this country[2].

The Planning Commission in its draft outline of the First Five Year Plan also underlined the same goals set for private enterprise in the following words

"In a planned economy, private enterprise has to visualise for itself a new role and accept in the large interest of the country a new code of discipline. Private enterprise, like any other institution, will enjoy and justify itself only to the extent to which it proves to be an agent for promoting the public good[3]."

These objectives are sought to be achieved by the enforcement of the various provisions of the companies Act 1956 which

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1: Article 39 of the Indian Constitution, (Directive Principles of State Policy.)

2: Speech of Mr. C.D.Deshmukh, the then Finance Minister of India.
See 4 Lok Sabha, Debates, Clmns 5969-71.

3: First Five Year Plan. A Draft outline, New Delhi Planning Commission, Govt. of India, 1950, p.14.

may be grouped as (a) enabling the democratisation of management, (b) dealing with accounting procedures, for enforcing the financial and managerial accountability,

(c) preventing concentration of economic power and wealth by regulating inter corporate investment and loans,

(d) arresting the dissipation of corporate funds by way of managerial remuneration, and

(e) regulating corporate behaviour by administrative sanction.

CONTROL BY SHAREHOLDERS: The successive enactments in the field of company law have progressively enlarged the power of the shareholders to intervene in the conduct of the management of companies and also to get themselves posted with the corporate facts and financial position in great deal. Far reaching rights have been conferred on the shareholders inorder to democratise the operation of company affairs. In order to achieve this end, procedures have been prescribed under the Act by which the shareholders are empowered to elicit information and in case of any infringement of their rights and powers to take action to control the conduct of the management, either through judicial process in the court or through the aid of administrative agencies of the Central Government, entrusted with the administration of the Act. But the illusory nature of the control theoretically exercised by shareholders over directors have been accentuated by the disposal of the capital among an increasing number of small shareholders who pay little attention to their investment so long as satisfactory dividends are forthcoming, who lack sufficient time, money and experience to make full use of their rights as occasion arises and who are, in many cases, too numerous and too widely dispersed to be able to organise themselves.[1]

CONTROL THROUGH ACCOUNTING PROCEDURE: In accordance with the provisions of the companies Act, every company is required to keep proper books of accounts containing the entire financial affairs of the company; The Act regulates the place at which, and the period for which, the books are to be maintained. It also provides that the books of account are open to inspection not only by the directors, but also by the Registrar of companies and other specially authorised officers of the government.[2] The statutory obligations ensure and facilitate the proper audit of the company's

1: The Jenkins Committee, which reported on the working of Companies Act, 1948 of the U.K. - See Report of the Company Law Committee, 38 (1962).

2: See Sec. 209(4) of the Companies Act, 1956.

financial affairs, with special reference to costing and productivity. The requirements also provide for inspection, special audit and investigation of company's affairs. The philosophy underlying these elaborate provisions regarding the maintenance, preservation and inspection of the books of account appears to be the modern concept of maximum disclosure of the financial dealings of the separate entity to all those who are interested in its affairs.

In accordance with sections 224, 226, 227 and 228 of the Companies Act, 1956, every company should appoint an auditor, who shall be Chartered Accountant, recognised under the Chartered Accountants Act of 1946 to audit the accounts. The auditor's report should specify whether he has obtained all information and explanation, which to the best of his knowledge and belief, were necessary for the purpose of his audit, whether in his opinion, proper books of account have been kept by the company; whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns; and whether the books of account and other returns give the informations required by the Companies Act and thus furnish a true and fair view of the company's affairs.

The Central Government has been empowered to order special audit,[1] if the Central Government is of opinion that the affairs of a company are not being conducted in accordance with sound business principles or prudent commercial practices, or that the affairs are being managed in a manner likely to cause serious injury or damage to the interests of the trade, industry or business to which it pertains, or that the financial position is such as to endanger the solvency of the company.

By the Amending Act of 1965, provisions have been made in the Act under section 233 B enabling Central Government to prescribe for audit of cost accounts of companies in respect of which maintenance of cost records have been prescribed under section 209 (1) (d) of the Act. The Government is also authorised by the Act to prescribe the manner in which the cost audit is to be conducted. The basic objective of these requirements appear

1: See Section 233 A of the Companies (Amendment) Act,1960.

to be to see that the industries which cater to the needs of the consumers should develop a climate of cost consciousness by arranging for careful security of costs to in respect of maintenance and production. The aim of these provisions is to ensure that the corporate funds are properly and legitimately spent.

Section 235 to 251 of the Companies Act deal with the subject of investigation. The purpose of investigation is mainly to ascertain in detal a company's real financial position and operation for locating fraud, misfeasance, breach of trust, mis-appropriation etc.

APPOINTMENT OF MANAGERIAL PERSONNEL AND THEIR REMUNERATIONS

The most important area of company control is in regard to the appointment and remmunerayion of managerial personnel. In order to prevent introduction of multi-class managerial personnel in one and the same company, it has been provided that no company shall appoint or employ at the same time more than one of the categories of managerial personnel namely managing director, director or manager.[1] Any director who is entrusted with substantial powers of management of the affairs of the company would be a managing director. His appointment may be governed either by a resolution of the company in generl meeting, or the board

1: See Sec.197 A of the Companies Act, 1957 as amended up to date of directors, or by virtue of provisions made in the memorandum or articles of association or by agreement.[1] The appointment of such a managing director for the first time requires the approval of the Central Government to be effective.[2] The tenure of office of a such managing director is limited to 5 years at a time, even though there is no bar in his being re-appointed.[3] No person can be managing director for more than two companies at a time.[4]

The remuneration of director is regulated under section 309 of the Act which prescribes the maximum limit as well as the mode of payment of remuneration. A managing director or director in the whole time employment of the company can be remunerated on monthly salary basis or on the basis of percentage of net profits. The quantum of such remuneration should not be exceed 5 per cent of the net profits, in case the company has one managing director, and in case there are more than one, 10 per cent for all of them put together.

Sec. 2(24) of the Act defines a manager as one who is entrusted with the whole, or substantially the whole of the management of affairs of the economy. The appointment of the manager is subject to the approval of the Central Government

1: See Se. 2(26) of the Act.
2: See Sec. 269 of the Act.
3: See Sec. 317 of the Act.
4: See Sec. 316 of the Act.

in the same manner as that of the managing director.[1] The question of remuneration payable to the manager is prescribed under Section 387 of the Act according to which it should not exceed 5 percent of the net profits.

ADMINISTRATIVE AND JUDICIAL CONTROL: There is also another control exercised through a new institution called the Advisory Commission under Section 410 to 413 of the companies Act to enquire into and advise the Government in many important matters relating to the affairs of the Company. The judicial control is exercised in various ways. Very wide and comprehensive power are given to the court for the purpose for preventing oppression of any section of shareholders and also for the purpose of relieving against mis-management of the affairs of the company.

CONTROL OF MONOPOLIES: Monopoly is neither good nor bad in itself.[2] But it has the power to be good or bad[3] and since power corrupts and absolute power corrupts absolute,[4] the power inherent in monopoly deserves to be briddled not only by remedial measures but by preventive ones as well, so that the law is not a silent spectator until bridges have actually b en blown[5]. That justifies

1: See Sec. 369 & 388 of the Act.
2: Stacey, A.H. Mergers in Modern Business, p.-68
3: Ibid, p.68
4. Report of the Monopolies Inquiry Commission, Op.cit.,p.1
5: Prof. John Kenneth Galbraith while [illegible]

the need for regulating in public interest not only monopolies but concentration of eonomic power[1] as well.

The danger of excessive concentration of economic power have been well recognised in the Indian Constitution.[2] Accordingly, item 21 in list-II(concurrent list) of the seventh schedule of the Constitution expected the state to legislate on 'commercial and industrial monopolies, combines and trusts'. While this was the directive to the state, "planned economy which the government decided to accept for the country as the quickest way to achieve industrialisation could not contain concentration.[3] Indeed every one of the circumstances,viz., allocation of resources and the settlement of priorities tended to produce concentration of economic power.[4] The Committee on Distribution of Income and levels of living (popularly known as Mahalanobis Committee) concluded that concentration of economic power in the private

(*): anti-trust laws as a part of the American Folklore, equates the policy to locking the stable door not alone after the horse has been stolen but after the entire stud has gallopped away. - Financial Express 2.7.1967.

1: Concentration of economic power is the central problem; monopolistic and restrictive practices, may be approriately considered to be function of such concentration. "Report of the Monopolies Inquiry Commission, Op.Cit,p.1
See also Dr. Hazari R.K.,Monopolies and their Regulation in India (Dr. Hazari refers to "monopoly capital" as concentration of economic power").

2: See Article 39 (b) (c) Constitution of India.

3: Report of the Monopolies Inquiry Commission,Op.Cit. p.6

4: Ibid p.7

sector is more than what could be justified as necessary on grounds and it exists both in generalised and in the specific forms.[1] The Monopolies Inquiry Commission set up under the Commssion of Inquiry Act 1952 to enquire into the extent of and effect of concentration of economic power in private hands and the prevalence of monopolistic and restrictive trade practices found country-wise (where in respect of production and distribution of any particular commodity or service, the controlling power, whether by reason of ownership of capital or otherwise vests in a single concern, or in a few concerns, these concerns themselves are controlled by only a single family or a few families of business house) and product-wise (where a large number of concerns engaged in the production or distribution of different commodities are in the controlling hands of one individual or family or group of persons whether incorporated or not, connected closely by financial and business interest) concentration of economic power.[2] In 65 out of 100 selected products, a high degree of concentration existed in the sense that the share of the three top producers happened to be more than 75 percent of the

1: Report of the Committee on Distribution of Income and Levels of Living, New Delhi, Govt. of India, 1964, p.54.

2: Report of Monopolies Inquiry Commission, Op. Cit. p.2.

total production. In the sphere of country-wise concentration the total paid up capital and total assets of the companies belonging to 75 business groups (with assets not less than Rs. 5 crores each) accounted for about 44% and 47% respectively of the total paid up capital and total assets of the companies functioning in the corporate sector; there were attempts by monopolists to keep out fresh competitors in various ways; practices, such as hoarding and creating artificial scarcity in the market, price fixation or re-sale price maintenance, exclusive dealing contracts and tie-in-sales by manufacturers are prevelent on a fairly large scale[1]. The Commission, therefore opined that " we are convinced that the existing powers of the Govt. have not been able to check the growth of concentration of economic power in private hands or to eliminate the evils of monopolistic and restrictive practices. The experience of other countries when faced with similar situation shows that a body specially entrusted with the duty of looking after these matters can be of great use in preventing excessive concentration of economic power or the evils resulting there from and also evils that

1: Report of the Monopolies Inquiry Commission 1965, Op.Cit., pp. 30-32, 122 and 126-134.

frequently result from monopolistic and restrictive practices[1]. Therefore, on the basis of the report of the Monopolies Inquiry Commission, the Govt. has established a permanent statutory body, viz. Monopolies Commission[2] with mandatory powers in respect of restrictive trade practices and advisory one in respect of monopolistic practices. The Commission would also advise the Govt. in matters concerning concentration of economic power such as expansion of existing concerns, diversification of business, amalgamations and mergers etc.

It is a common thinking that provision of the Monopolistic and Restrictive Trade Practice Act are a direct attack on the size of an enterprise. No where else has monopoly legislation taken mere size or assets into account for the purpose of restriction and control of companies under their anti-monopoly and anti-trust legislation and there is no valid reason why we should do so in India[3]. But it may be mentioned that the law on the subject does not impose any absolute embargo on the growth of the business. Nor does it visualise any arbitrary freeze in

1: Report of the Monopolies Inquiry Commission 1965, op.cit p.140.
2: The Commission was established vide Resolution of the Lok Sabha dated 9th September, 1965.
3: Memorandum presented to Joint Committee of Parliament of the Monopolies and Restrictive Trade Practice Bill by the Tata Industries Private Limited, pp. 1-2.

the expansion of the business houses. All that it provides for is government sanction to ensure that the growth of large sized undertakings and major business group is not against public interest. Of course, it has to be ensured that the time lag between the submission of the proposals for expansion and the approval thereof is kept to the minimum.

FISCAL AND MONETARY CONTROLS: Overall fiscal and monetary discipline can go a long way towards regulating the ebb and flow of industrial activity. There are two roles of fiscal and monetary policy measures on industrial expansion in the country. One is related to the broad problem of mobilising and allocating the resources between different sectors of our economy. The other aspect is the necessity to guide and regulate as far as it is possible the decentralised working of the private sector so that its operations are made to harmonise with the planned objective and priorities. These two are not conflicting but they support and complement each other.

When voluntary savings are not forth-coming in an adequate volume owing first to the low ability to save resulting from the low per capita income and secondly low degree of the willingness to save resulting from the attitude and psychology, it is claimed that we should adopt other means of an involuntary nature which would help to increase the rate and level of savings. Taxation policy and the resultant increase in government savings expected from it is one of the important measures to mobilise resources for industrial development.

Judicious system of taxes and subsidies can be used to promote a rational allocation of the resources. The regulatory purpose of taxation besides being purely for raising revenue is well recognised since long. It has been described as social welfare purpose in the nineteenth century German Literature on economics.[1] The span of regulatory function of taxation is so widespread that it is considered immaterial to classify taxes into two categories namely, those for revenue and those for regulation.[2] The reason

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1: See Adolf Wagner, "Three Extract on Public Finance", (1883) translated from German by Nancy Cooke in Classics in the Theory of Public Finance 8-9 (ed. Richard A. Musgrave and Allen T. Peacock; International Economic Association, London 1959).

2: See Elmer, E. Smead, Government Promotion and Regulation of Business 32 (New York 1969).

is that even though a tax is intended to raise revenue and not to regulate, it may be regulatory because of the effect it has upon some particular persons. In other words the tax is an indirect regulation of business if it has the effect of reducing or preventing some action by business. As a result even though the sole objective of a tax may be to raise revenue and even though it does raise large amounts of revenue, the government will still be regulating.[1] Mr. Justice Stone also emphatically remarked that every tax is in some measure regulatory. To some extent it interposes an economic impediment to the activity taxed as compared with other not taxed.[2] One may not fully agree with such sweeping remarks, nevertheless it sufficiently brings out the significance of the technique of taxation as an instrument of regulation.

The regulatory function of taxation has many facets. Amongst the indirect taxes, import duty may be imposed to serve and protect home producers from foreign competitions, or to restrict the consumption of foreign products and to boost home

1: See Elmer E., Smead, Government Regulation and Production of Business Op.Cit.

2: 300 U.S. 506 at 513, 81L. ed. 772 at 774 (Sonsinsky Vs. United States).

product.[1] An underdeveloped country like that of ours certainly needs protection for its infant industries and the holding down of imports by controls expeditiously creates domestic markets for the expansion of home industry.[2] Export duties could be used to restrict the import of inflationary element in the local markets to stabilise prices or for protective purpose so as to discourage export of raw material useful for domestic manufacture.[3] Excise duty may be utilised for the regulation of the production and consumption patterns in the country.[4] Reduction in the inequalities of wealth may be achieved by highly progressive income-tax rates and through the integration of wealth, estate and gift taxes.[5] Capitalist enterprise in the private sector make up a large part of the population who are liable to income and wealth tax, the owners of big enterprises are pronounced among those subject to very high tax rates. Prof. Nichlas Kaldor

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1: S Boothalingam, Final Report on Rationalisation and simplification of Tax Structure 13 (Govt. of India, Ministry of Finance, New Delhi, 1968).

2: See India, Management of Public Deptt. in India, New Delhi 1965 (National Council of Applied Economic Research).

3: See Govt of India, 2 Report of the Taxation Enquiry Commission 272-278 (3 Volumes, Ministry of Finance, New Delhi 1953-54).

4: See, Supra note 7 at 5

5: See, W. Friedmann, Laws in Changing Society 85 (Pelican ed. 1964

6: See Tax Reform in India - "Essay-s on Economic Policy Vol. I pp. 216 ff Also see fourth Five Year Plan: A Draft outline p. 32.

introduced new taxes on capital gains, wealth, personal expenditure and gifts.[1] The technique of tax-incentive in its various forms, viz. exemption, accelerated depreciation, development rebate, tax credits etc, has become a common feature of taxation laws.[2] In India, new enterprises are exempt from paying taxes on profits up to 6 p.c. during their first five years of life; receipts of dividends paid out of such profit enjoy a similar tax holiday. Both new and existing enterprises are granted a "development rebate" for new plant and machinery expenditure and this together with liberal depreciation allowances means that they can deduct from income more than the amount of their actual investment. Certain expenditures connected with the employment of foreign techniques are deductable for thre years; expenditure on scientific research can be deducted in full. Many other tax exemptions intended to induce enterprise and investment are scattered throughout the tax structure in India. The net result of all the tax deduction is that in many cases, the tax is levied on an income much less than that indicated in the balance sheet. This is additional encouragement of industrial investment.[3]

1: See Tax Reform in India -Essays on Economic Policy Vol.I pp. 216 ff Also see fourth Five Year Plan: A Draft outline p.38.
2: Taxation and the Developing Nations, Pamphalet 197 of the International Chamber of Commerce(Paris 1952)gives a lsit of tax incentives in fifty five countries; (+)
3: A.K.Das, Position of Foreign Enterprise in the Indian Tax (+)

Thus the industrial activities encouraged through tax-incentives are numerous. Tax concessions may be allowed to accelerate production and export or to encourage the establishment of new industrial undertakings as well as for expansion of existing concerns.[1]

Taxation policy does not constitute the whole of fiscal policy. It has a second dimension that of expenditure policy. The recent expansion and diversification of our industrial activities in the private sector has been made possible by the massive public expenditure incurred for providing the infra structure and creating the climate for larger and more intensified investment activity by the private sector. A study[2] on measuring the pace of development using an index of development potential constructed to measure real changes in development

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(+): Also, see Direct Taxation - An International Comparison 83-127 (Federation of Indian Chamber of Commerce and Industry, New Delhi 1969)

(*): Structure, Govt. of India, Ministry of Finance, Deptt. of Revenue, Directorate of Inspection (Income Tax) Capital, New Delhi, December 19, 1957, p.6

1 : See for example, section 280 ZA and 280 ZB of the Indian Income Tax Act 1961, where tax credit certificates are issued in relation to increased production of certain goods and to certain manufacturing companies for increased Tax liability.
In 1965 - Section 280 ZC was inserted which provided for a tax credit certificate for export but it was ultimately withdrawn.

2 : Reserve Bank of India, Bulletin, April 1968 pp. 467-474

potential particularly during the earlystages of planning, claims that the growth rate in this index has been more than 7 percent per annum during 1954-64 or has been double the rate of growth of national income. Though the growth rate in real national income has been only 3.5 percent per annum, the index of development potential does reflect the fact that the process of structure transformation has been taking place at a fairly rapid rate. This, the study concludes, is of significance for development, and that if the momentum of development process is maintained, the growth rate in national income could accelerate. And the momentum of growth, as in the past, would continue to depend on the volume of public expenditure and investment.

It is a fact that ~~a~~ main reason for public investment and expenditure in power, transport and the public utilities has been to promote private enterprise. The State has entered in these fields where for various reasons private industry could not be expected to take the initiative. Furthermore, it has taken this step mainly inorder to make supplies of raw material and capital goods available to private industrialists.

FOREIGN EXCHANGE REGULATIONS:

Foreign exchange is largely earned by a country by means of exports of commodities and services from that country. Imports of goods and services by that country are to be paid for in foreign exchange except to the extent they are financed by credits. Therefore, it is important for a country to conserve foreign exchange. Conservation of foreign exchange reserves is, thus, vital for developing country like that of ours to pay for the import of machinery and technical know-how to build up a strong industrial base. The need for foreign regulations, therefore, does not require any emphasis. Even advanced countries like Britain and France have been forced to resort to foreign exchange control to protect their economy. The foreign Exchange Regulation Act,1947 states that " it is expedient in the economic and financial interests of India to provide for the regulation of certain payment, dealings in foreign exchange and the import and export of currency and bullion"[1] The Act empowers

1: See Foreign Exchange Regulation Act, 1947.

the Reserve Bank of India and the Central Government to secure that foreign exchange earned by exports or otherwise is properly accounted for and realised. The Act empowers the Central Govt. to make rules.[1] The Reserve Bank of India is empowered to give directions to banks, travel agents and others.[2]

THE IMPORT AND EXPORT CONTROL: The import and export control in India was introduced by the enactment of the Imports and Exports (Controls) Act 1947. The Act initially was to be endorsed for a limited period of three years. It was thought that " though the actual administrations of these control measures calls for gradual simplification as conditions permit, the measures themselves should be retained for some time longer in order to avoid any disturbance to the economy of the country during the transition from war to peace time conditions.[3] The Imports and Exports (Controls) Act is a short enactment of eight sections. Section 3 is the key section which confers a blanket power on the Central Govt. to make provisions by order published in the

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1: See Section 27 of Foreign Exchange Regulation Act 1947.

2: See Section 20 (3) of the Act.

3: Statement of objects and reasons, Import and Export Control Bill, Gazette of India, 1947. Part V, p. 86.

official gazette for prohibiting, restricting or otherwise controlling the import into and export of goods out of India. Any conceivable commodity can be controlled under this section.[1] Under this section , the Central Govt. has promulgated the Imports(Control) order 1955 and Exports (Control) order 1962. the imports order introduces a scheme of import licensing. The goods specified in the order can not be imported without a license being granted by an appropriate licensing authority, unless the Govt. has granted an exemption to any commodity from licensing. The list mentioned in the order requiring the import licence of commodities is so lengthy that hardly anything can be said to be left out. The order prescribes very broad factors for issuing the licence by the licensing authority.[2]

COMMODITY CONTROLS:

The legal frame work for commodity control in India is furnished by a number of Statutes enacted by the Parliament. The first in the list is the Essential Commodities Act 1955 which empowers the Central Govt. to control, regulate, or prohibit

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1: Bhatnagar & Co, V. Union of India. A.I.R. 1957 S.C. 478.

2: One of the factor for refusal to issue a licence is the 'non-availability of foreign exchange and in the interest of the State'.

3: India, Govt. of, Report of the Fiscal Commission 1949-50. Vol I New Delhi, 1950, p.173.

the production, distribution, transport, trade, consumption or storage of a large number of commodities - all foodstuff, all principal raw materials, import industrial components and all iron and steel and steel products - to prescribe their prices and even to take over stocks on conditions it itself sets. A regular duty of the Indian Tariff Commission is to fix prices of the products so as to limit profits to 8-12 per cent of the invested capital; with regards to a 'representative' firm, the law states only that the practice is to select units of average size from different centres.[1]

The State Trading Corporation has been given a monopoly on the import- and sometimes, as in the case of cement, the acquisition from Indian Manufactures as well - and distribution of a number of important commodities with the object of ensuring a fair distribution ar reasonable prices. Besides, there are a number of enactments to control various specific commodities like cofee, coir, tea, rubber etc, the Coffee Act, 1942 established the Coffee Board empowering it to fix quotas for internal

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x 1: India, Govt of, Report of the ~~Fiscal Commission~~ 1949-50, Vol. I, New Delhi, 1950, p.173
Fiscal Commission 1949-50 [illegible]
p 173.

sale, exports etc. The Coir Industry Act, 1953 takes the coir industry under the central control. The Coir Board is appointed to promote the development of the coir industry, to take measures to promote exports of the coir products. Similarly the Tea Act 1953 takes the tea industry under the Central Control and creates the Tea Board on the lines of the Coir Board. The Rubber Act, 1947 constitutes the Rubber Board to promote the development of the rubber industry.

The impact and consequences of all these controlling and regulatory measures are not merely that private sector enterprises must operate within a framework set by government laws and regulation. The fact is that no major business decision can be taken except with the prior permission of the government or at the risk of subsequent government disapproval. Where to locates his plant, or what is a reasonable rate of return on his capital, or on how rapidly he should take on local managers, or even on whether he should be permitted to invest in a particular direction at all - all these decisions are influenced by government machinery. It is the plan which lays down which are the industries to be developed and to what extent and it is made incumbent on the authorities to make the necessary resources available so that expansion of the private sector industries, as planned, can be achieved. The means by which the targets can be achieved have also to be provided for through the mechanism of control on capital issues, import licences, export and foreign exchange regulation and other fiscal and monetary controls.[1] In a system of controls, the application of one sets of control has a tendency to make necessary the application of others. A great number of other policies have the object of encouraging investment in the private sector. A major consideration in fixing the prices of goods and services produced in the public sector has been that they should be kept low to encourage private enterprise. State undertakings in basic industries and public utilities have the effect of improving conditions of private sector undertakings. Rates of interest in organised ~~cr~~ credit and money market are held down for this reason and special credit institutions are created that often provide credit facilities at less than market rates. Various tax exemption and tax incentives are given to encourage new business ventures.

1: See Economic Weekly, December 21, 1963, p.2059.

Moreover, every enterprise that gets an import licence and foreign exchange receives a de facto subsidy. It is common knowledge that each licence fetches anything between 100 per cent to 500 per cent of its fact value if sold/or transferred.[1] There are other controls and devices whereby costs are decreased and returns are increased for enterprises in the private sector. The state can assist in the fulfilment of the programmes in the private sector partly by cutting out undesirable investment through capital issues control, control over exports and imports, licensing of industries and partly through tax adjustments and concessions and in part by way of selective financial assistance through the various corporations which have been set up for the purpose.[2]

While everybody talks about nece sity of encouraging private enterprise and while a number of above discussed controls are institued for this end in view, most of the officials go on finding out ways and means to humbling and stopping private enterprise to emerge. Thus, inspite of the good intentions underlying the control mechanism, the controlling of the controls

1: See India Govt. of Ministry of Home Affairs, Report of the Committee on Prevention of Corruption, New Delhi, 1964, p. 19 cf. p. 251.

2: See India, Second Five Year Plan, 1956, p. 93.

was far from efficient.[1]

Though controls and regulations regularly give expre - ssion to the view that new concerns and small enterprises should be granted preference in order to counteract the tendency toward a concentration of economic power, it is common knowledge that these controls and regulations always favour monopoly and oligopoly and pamper vested interest. Thus the trend has been in opposite direction. The small industrial units and the new concerns are particularly hindered and discouraged by the multiplicity of controls, for their economic power is so week that they can hardly deal efficiently with the control authorities and cope with the delays and red tape involved. On the other hand, existing larger enterprises enjoy a comfortable position under the protection of control and make heavy profits through access to the scarce factors made available to them cheaply.[2] It is, apparent, therefore, that big business enterprises have good reason to support the prevailing system of

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1: C.N. Vakil and P.R. Brahmananda, Planning for a Shortage Economy, The Indian Experiment, Vora & Co., Bombay, 1952, pp. 22-23.

2: See United Nations, Economic Commission for Asia and the Far East (ECAFE), Economic Bulletin for Asia and the Far East, Vol.XII,No.3, Dec. 1961, p.7.

controls and regulations. The solid basis is the oligopoly power and the extremely high profits the system affords them. For whenever they succeed in getting a permit, a license, a loan, a subsidy, or an allocation of foreign exchange, they get a profit.

<u>CONCLUSION</u>:

In conclusion it may be said that Controls are the means by which the Govt. maintains a balance between various sectional interests. Under certain circumstances the accent may be on the maintenance of certain price ceilings and through these of the real purchasing power of the income according to certain classes. Under other conditions, the enforcement of minimum prices might be a necessary corollary to a policy of ensuring a reasonable rate of return on effort in certain times of economic activity. Viewed in the proper perspective, controls are but another aspect of the problem of incentives, for to the extent that controls limit the freedom of action on the part of certain classes, they provide correspondingly an incentive to certain others and the practical problem is always to balance the loss of satisfaction in one case against the gain in the other. For one to ask for fuller employment and more rapid industrial development and at the same time to object to controls is obviously to support contradictory objectives.

Controls might be harmful as well as unpopular. It must be recognised that controls ineffectively or inefficiently administered may do harm rather then good. It is also true that so long as the public regards controls as so many hinderences to be circumvented if possible, to be put up with other-wise there will be resentment against controls. It is, therefore, essential that the rational of each control is made clear to the public and the rights and obligations of the parties affected defined in a manner which leaves little scope for doubt as to what is expected of the public and where redress may be had in case of any grievance. It is also vital to the success of controls to make necessary adjustments in their working from time to time as the condition governing the supply and demand of the commodities in question changes. In short, government regulations and controls should genuinely regulate and not restrict or inhibit. My endeavour in the next Chapter will be to examine the impact of these controls on industral expansion of the private sector of the country.

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C H A P T E R - IV

CHAPTER IV

PATTERN OF INDUSTRIALISATION UNDER CONTROLS

In the preceding chapter, the mechanism of government regulation and control has been throughly examined. Generally, government regulation and control of private enterprise is exercised through two types of mechanism physical control and fiscal and monetary controls. These are sometimes spoken of as alternatives but this is not so. They are all part of general instruments of economic policy which aims at regulation of industrial development and canalising of resources according to plan priorities and targets, avoidence of monopoly and prevention of concerntration of wealth and economic power in a few hands, protection of small and new entrepreneurs, etc. This chapter is dedicated to an analysis of the impact of these controls on industrial expansion in the private sector of our economy.

Industrialisations a sweeping process involving all elements of a country's economic and social frame work which, in turn, affects the rates and scale of industrialisation, the sequence in which new industries are created and so on. That is the why a detailed study of a country's industrialisation must be based on the principal developments in the economic, social and political spheres. In India where the mixed economy takes the form of co-existance and cooperation between public and private sector, the government, besides expanding the scope of its own industrial undertakings, also has to coordinate and encourage the industrial development in the private secyor.

With the field of activity which is entrusted to private sector, the major aims of policy are to ensure broad based ownership in industry, diffusion of enterprise, liberal facilities for new entrants and engineering graduates and encouragement to small entrepreneurs. The constitution of the country also visualises a new socio-economic order in which justice, social, economic and political shall in form all the institutions of national life.[1] Under such a socio-economic order, the ownership and control of private enterprise should be so distributed as best to sub-serve the common good[2] and the operation of the economic system shall not result in the concentration of wealth and means of production to the common determinents.[3]

The various controls and regulation measures which have been discussed in the previous chapter have given the government the right to guide almost all the activities of industrial undertakings. To start a new undertaking one has to seek the consent of the government over the following matters:[4]

(a) Obtaining land and consent of local authorities for utlising water and power resources;

(b) Industrial licences;

(c) Company registration;

(d) Business relation with foreign firm (if any);

(e) Issue of Joint Stock Capital;

(f) Import licence for buying the equipment;

1: Article 38, Consitution of India, 1950.
2: Article 39(b), Ibid.
3: Article 39(c), Ibid.
4: Reserve Bank of India, Bulletin, Bombay, March 1968, p.317.

(g) Actual issue of capital;

(h) Commendement of production;

A soon as the new enterprises started production they immediately come under the jurisdiction of the Factory Acts, the price and marketing control, credit regulations etc. The Companies Act and the control exercised over credit and capital issues were supposed to ensure an influx of capital from the other fields of economy; licences were to direct investments into the most important industrial branches; and control over import and foreign exchange was meant to promote the uninterrupted conversion of cash accumulation into productive investments, that would boost production. Licences also helped to corelate supply amd demand in the domestic market, eliminate competition and ensure the optimal utilisation of capital. Price control encouraged the marketing of commodities and raised profits, thereby encouraging accumulation and the expansion of industry on the basis of internal resources. That was how control was visualised, but in practice its effectiveness was hampered by the serious administrative and legislative shortcomings. Let us examine the impactof these controls and regulations on industrial development of the country.

The minimum sum of single investment subject to compulsory licensing was being gradually raised from year to year. The huge field of small scale indutries remained outside the sphere of control. According to the 1961 census, there were 2,224,600 enterprises, including 470,100 mechanised factories, employing less than 10 workers.[1] The policy of restricting big business in some light industries (cotton, footwear, soap, furniture etc.) the tax concession and the absence or indequacy of state control insmall scale production persuaded the enterpreneurs to invest thousands of millions of rupees in the unorganised sector The field of industrial production subject to inadequte control or no control at all was rapidly expanding and this made room for all kinds of profiteering mechanisations. The small factories were forced to instal the same machines as the big factories, but because of the shortage of capital, skill etc., they were unable to operate the machines as effieiently. Thus the fixed capital in the small enterprises was utilised moderately. Merever

1: Census of India, 1961, Vol. I India part IV(b), 1964, p. [illegible] Housing & Establishment Tables , Delhi.

they did not have reliable and continuous supplies of raw materials. The production capacity of small scale industries was, therefore, not utilised to the full: in the mid 1960s only 40 to 50 percent of their capacity was being utilised. Under these circumstances, the state controls and regulations were powerless to guarantee the maximum utilisation of industry's fixed assets. The general inadequacy and ineffciency of the control machanism meant that it had its impact on the large scale industries too. The licensing system had on the whole a negative effect. It prevented the influxing of fresh capital into the industries. In many cases it failed to divert the capital into the important fields since it was the owner of the capital who made the final choice. It is true that licences helped the government prevent large sums from being invested in the traditional industries, and channel capital into the fields of new industries, but the lion's share of private investments was nevertheless dissipated inthe mass diverse undertakings. So the comprehensive approach to the establishement of heavy indutry in the private sector proved a failure.

The blame rested not so much with the shortcoming of the control mechanism as with others unrelated factors's. The policy of foreign companies towards establishing new industries in India, the uneven ripening of conditions for setting up different industries, the situation inthe domedtic market, and the rate of capital formation in the country. Moreover, serious drawbacks in the practical implementation of industrial control and regulation also came to light. Licences were being granted for the contruction of comparatively small, uneconomic factories. This was due to the weakness of industrial enterpreneurs who did not command sufficient capital to establish modern, sophisticated concerns. Large enterprises were, therefore, frequently indentified with monopolies. It is, of cource, either monopoly houses or the state that command the necessary funds for carrying out large projects in India, but the industrial policy was aimed not so much aganist the monopolies as against big production units in general. The encouragement of comparatively small undertakings was often misinterpreted as a struggle against monopolistic tendencies. The establishment of uneconomical enterprises was widespread in practically every field of industry. According to the Textile Industry Reorganisation Committee (1968), an Indian spinning mill requires at least 50,000 spindless before it is economical to run. In the Third Five Year Plan period, however, 134 licences out of a toal of 159 were granted permission for the establsihment of mills with 12,000 spindles and the other 25, for mills with from 15,000 to 25,000 spindles.[1] Therefore, the size of even the biggest mill was twice less than the economical one. Automatically, such projects entail huge protection costs. The Government, in protecting the small undertakings from competition, fixes the prices in conformity with their production costs which are high. Since the big enterprises have far lower costs of production, the fixation of prices according to the costs of the small enterprises gives the monopolies additional profits for many years to come. The situation still prevails in the tyre and paper industry and in some fields of the chemical and engineering industries.

Licensing and other controls also failed to put a stop to the tendency to the wrong and erratic locations. There was

1: Monthly commentary on Indian Economic Conditions, New Delhi, August 1968, pp. 19 & 133.

a further excess concentration of industries in a few developed regions. This can be accounted for the developed infrastructure and other facilities there and the availablity of capital, Managerial and technical know how, skill etc. No doubt there were cases when permission was granted for the establishment of enterprises in areas., where there were neither sufficient raw materil for merket. All this resulted in additional transport expences and other overheads.

The taking out of a licence was, morevor, no guarantee that the production capacity approved would actually be installed The enterpreneur might come up against difficulties and obstacles in mobolising capital by issuing shares, or in the signing of agreements with foreign concerns for the utilisation of technical know how; he might fail to get bank or financial corporation's credit from Government- sponsered agencies, etc. As a result, the enterpreneur's obligation to install a specified capacity was not fulfilled. There were other reasons also for the failures to meet the obligation set down in the licences.

The Hazari Committee report also discovered that by acquiring a large number of licences and procrastin-ating their implementation, the monopoly houses were keeping at bay the would be competitors in their respective markets. If the applications are rejected or deferred for subsequent consideration, they remain on the waiting list against future grants of licences ahead of new applications from others ... That keeps at bay existing large undertakings which might have ,the capacity to offer competitive products by feasible diversification. Enterprise and imaginative undertaking of licensing formalities, thus enable ... to foreclose the market. Astute management turns this process into high and quick returns on investment.[1]

Non-fulfilment of the planned targets dues to various factors made the situation precarious. The government had no guarantee that the licenced capacities would be installed within the stipulated period of time and thus failures could be remendied only after a few years had elapsed. So, starting from the end of the Second Five Year Plan, the government began to grant

1: Industrial Planning And Licencing Policy, Report by R.K. Hazari Vol I Delhi (1967) Part I, p.12.

licences for capacities over and above the planned targets. For instance, the Thrid Five Year Plan envisaged an increase in annual output of 410,000 tons in the paper industry, but enough licences were issued to install capacities annually producing 8,04,000 tons. It resulted in unhealthy competition among enterpreneurs for the scarce resources which in turn pushed up the capital costs. If the actual implementation happened to be larger than expected, there was a sizeable unutilised capacity.[1] The situation in some other industries, including cement and ceramic production was similar.

The shortcomings of the control mechanism were also aggravated by miscalsulation in planning (incorrect estimate of domestic requirements in certain items, inexact determination of installed capacities in some industries), by the protracted formalities in obtaining licences, rivalry among the different enterpreneurs for licences and permit etc. As the non-controlled field of small scale industries expanded and the large scale sector was consolidated and the monopolistic tendencies became

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1: Sharma, T.R. & Chauhan, S.D. - Indian Industries: Their Development, Management, Finance & Organisation, Agra 1962, p. 518.

more pronounced, the system of Govt. regulation and control of industry actually began to crumble. This was an indication of the limited opportinities for controls and regulations in a mixed economy.

The control of foreign exchange and import also failed to provide favourable conditions for a conversion of cash accumulations into investment or in unrelated flow of reproduction. The small scale industrial enterprises and the low technological level and labour-intensive industries entailed high production costs and consequently high prices of many commodities. The tendency towards inflation caused prices to rise even higher and the rupee to depreciate. Thus, inspite of high duties, it was more profitable to import commodities and market them in India than to sell the similar goods produced within the country. This situation fostered smuggling and other illegal practices in foreign exchange and import dealings like underinvoicing of imports, imports of prohibited commodities, reticing of foreign exchange, imports secured through bogus firms etc. The scale of such practices can be judged by the fact that in 1961-65 the

Finance Ministry uncovered 14,300 siolation of foreign exchange rules as against only 5,192 cases in 1959-60.[1] The recent on slaught on the smugglars and their activities is a pointer to the same direction. The most important wide spread illigal practice was probably profitsoring on import licences or impomted goods. It was estimated that approximately Rs. 5,500 million worth of import licences aere annually available in the black market.[2] It should be noted that the control of foreign exchange and import that existed prevented profiteering on imported equipment, especially on industrial plant, since import licences are mostly granted to the actual users. In this case control succeeded in removing the obstacles in the way of installing new copacities, and thus achieved its end, But it was a different story as far as the import of raw materials and intermediate products was concerned since these were the commodities most underhand on the black market. Control feel short of the mark and failed to ensure a timely supply of workign capital or prevent rising costs, and additional expenses for the consumers. As a result, the capital intensity of production grew and the potential market ....

1: Estimate Committee (196768), Ministry of Finance, Foreign Exchange, Delhi, 1968, p. 331.

2: Shenoy B.R. Indian Economic Crises, A Programme of Reform Bombay 1968, p.6.

capacity was reduced.

The exsisting form of foreign exchange and import control had a number of other disadvantages.In the first place, the government agencies were on the whole concerned with saving the foreign exchange resources rather than with attending to the priority needs of the industrial economy. With sizeable part of national income concentrated in a few hands and under the resulting pattern of demand for imported goods, the Govt.'s policy encouraged the establishment of many undertakings to serve the growing demand of the wealthy section of our society. The operations of such undertakings require less foreign exchange than the import of goods,but this practice diverts financial and material funds from the creation of national reproductive cycle. Secondly, control failed to curb processes brought about by inflation and the depreciation of the rupee. Imported articles were cheaper and also so the entrepreneures found it more convenient to use raw materials, semi-finished products and componnets from abroad instead of arranging a domestic supply It was only the import duty that curbed this tendency. But as the rupee lost its value, customs protectionism became less effective or was no longer felt. Production of the raw materials and semi-finished articles that could be imported was becoming very upprofitbale and this reduced the scale of industrliali-sation, hampering the setting up of new industries, preserving the dependence of the basic industries on the foreign exchange market and automatically increasing the volume of experts. From 1957 onwards, we were constantly short of foreign exchange,so even the import of commodities indispensable for the normal process of production had to be curtailed. In view of this situation and under the pressure from the entre preneurs the Govt. began to look for untied credits i.e. credits that could be used to obtain raw materials, intermediate products, components and spares,instead of setting up new projects,

Control over issues of capital is also quite difficult in a developing economy. The movement of capital depends on the rate of profit, the degree of risk involved, the nature and structure of the capital market etc. Therefore, the role of the Govt. in this field is limited to preventing unfair dealings, seeing that investments are not concentrated in well established industries and encouraging the ploughing back of profits. The State control in this field is, thus, negative in as much as it acts as a barrier to such transaction as would be undesirable for the high ups, but is powerless to channel private investment into the planned spheres.

This type of control and regulation of industry, moreover, involved only medium and large scale enterprises; the huge field of small scale enterprise was uneffected. Even inlarge scale undertakings such control had little impact. If it is assumed that control over capital issues should, alongwith other forms of controls, enhance the diversification and transformation of the existing industrial structure, it would seem that the primary task should be to encourage the establsihment of new enterprises and companies. But because of indefinite prospects, remoteness of return, bureaucracy etc., if is the new companies that faced the greatest difficulties in mobilising capital. In 1966-67, for instance, the capital issues by the new companies cost them 6.4 per cent of the nominal value, as compared with 5.4. per cent in the case of estabslihed companies. Even though the new com-

companies increased the costs, they failed to float 2.4. percent of their equity shares,as compared with a new 0.6 percent in the case of establsihed companies.[1] It is a fact that control over capital issues failed to ~~prevent~~ the further concentration of capital and production. Because of the great risks involved in transaction and lower profits and dividends, the role of small and medium sized companies in the mobilisation of capital by means of capital issues was gradually reduced. In 1961, the capital issues of up to Rs. 25 lakhs acoounted for 19.2 per cent of the total mobilished funds. In 1963 and 1965,the figures dropped to 14.1 and 10.1 percent respectively.[2]

The price and distribution control covered may types of goods.[3] Though control was exercised over the commodities in short supply or most important ones, it was not extended to the majority of other goods. Since the economic laws continued to operate, the parity of prices and the distribution of capital between the various industries were greatly affected. It should

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1: Eleventh Annual Report on the Working and Administration of the Companies Act, 1956, New Delhi 1968, pp.18-22.

2: Reserve Bank of India Bulletin, Bombay, June 1967,p.725.

3: Coal,Oil products, electric power,ferrous and non-ferreus metals,cement,chemical products (sulphuric acid caustic soda and soda ash,chlorine, calcium,carbide etc.) windo glass, tyres and tubes,paper,card board,synthetic fibres,mineral fertilisers, railway wagons,cars and (*)

be of interest to note that different principles are followed by the Tarrif Commission in fixing prices. In some industries a general rate of profit was fixed for the entire capital employed; in others the rates were set separately for the fixed and working[1] capital.[1] Besides production costs, selling prices included different rates of profit for different industries, for example, 12 per cent for the cement and paper industries, 10 per cent for the zinc and 6 per cent for the ferrous metals industries etc.[2]

Thus price control functionsdin various ways. In one group of industries only factory prices were fixed; in a second the Tarrif Commission fixed both factory and wholesale prices; in a third, it fixed factory, wholesale and retail prices, and in the fourth group (e.g. the sugar industry), the prices of sugar or raw materials were fixed. In the general, however, the control over factory prices was more rigid than ever whole sale and retail prices. Thus the control and regulations were comprehensive in the case of commodities used or produced by

(*): trucks, motor cycles, soap, vegetable oil, cotton, fabrics, sugar, industrial raw materials (cotton jute, sugar-cane) and food grains.

1: In the late 1950's The Tariff Commission decided to (*)

2: Tarrif Commission, Report on the Revision of Fair (+)

comparatively big industrial concerns. Controls and regulations over the prices of commodities put out or consumed by small scale industrial sector, were either very limited or non-existent. All this resulted in a price-hike for all commodities. From the early 1960s onwards the price control mechanism lost its efficiency. In 1968-69, wholesale prices (1952/1953=100) went up by 111.5 per cent; by 73 percent on manufactured goods, 98 per cent on electric power, fuel and lubricants. 146 percent on industrial raw materials, and 122 percent on food stuffs.[1] In 1955-56 the ratio between the prices on agricultural and manufactured goods was 1:1.07; but at the end of the year 1968-69 it was 1:0.77.[2] The fact that prices on raw materials and fuel rose higher than on finished products in the final analysis reduced the returns on industrial investments. This was a heavy blow to the industry, Capital began to flow into the less

(*): discontinue the practice and began to fix the rate of profits for the entire capital employed, but then it introduced the ceiling for the working capital.

(+) : Prices payable to Cement Producer, Bombay 1958, p.46
Tarrif Commission, Report onthe Ex-works and Fair Selling Prices of Paper and Paper Boards Bombay, 1959, p.41.
Tarrif Commission, Report on the Fair Price of Zinc payable to the Metal Corporation of India Ltd. Bombay, 1960 p.19.

1: Govt of India, Economic Survey 1967-68, Delho, 1968 appendix pp 42-43.

2 : Ibid., p48.

controlled fields-housing construction, inventory accummulation, and trade. This process was accentuated in the late 1950s when many big concerns in the textile,food,tobacco,leather and foot-wear and light engineering industries began to set up their own retail marketing net work so as to evade many clauses of controls and regulations and to increase their profits, The more rigidly the controls were enforced in a given industry, the less were the chances for additional profits, Private entrepreneurs, therefore, found the said industry less attractive. The cement and coal industries were a good example of this development. The Govt. controlled not only the prices but also the distribution of the goods produced by these two industries. As a result, the rate of profit in these industries was lower than the average rate for the country as a whole.[1] This would explain why many planned projects for the establishment of new capacities in the coal and cement industries were not carried out.

State control of industrial financing also produced confusing results. The Govt. was natrually able to redistribute banking credits in favour of industrial enterprises.It is

1: See Statistical outline of India,1963 Bombay p.61.
" " " " " 1967 " p.49.

sufficient to mention that in the mid 1960s approximately 66 per cent of bank credits were earmarked for industry.[1] But the short term credits which satisfied the require,emt of industry in the expansion of working capital, continued to be more important on account of the peculiar structure and formation of commerical banking funds, It was the nwe industries and in particular the heavy industries with their large capital-intensity that were most in need of credits. But the banks had no experience in financing new industries and hence they preferref to avoid the risk of dealing with the new industries, The bank, therefore, did very little financing of new industry that is not carried on by one of the existing large industrilists.[2] It is easy to understand that the limited financing held back the expansion of the new industries.

It may be clear from the above discussion that the Government controls and regulations adopted in India ran counter to the economic and political situation and hence they were reviewed to bring them in line with market mechanism. The Fourth

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1: Reserve Bank of India Bulletin, Op. cit.,May 1967, p.638.

2: Rosen G., Some Aspects of Industrial Finance in India Bombay 1962, pp. 14, 62.

Five Year Plan stated that "within the broad frame work of control in strategic areas there is advantage in allowing the market much fuller play[1]. Hence from 1966, industrial licensing was gradually phased out for more than 40 industries, including those producing cement, paper and pulp, stationery, diesel engines, frame implement, sewing machines, bicycles etc. Control over the " Substantial Expansion" of undertakings was modified between 1965 and 1967. By "substantial expansion", the Industries (Development and Regulation) Act, 1951 meant any enlargement of over 10 percent but from 1966 the phrase was taken to refer to expansion of production by more than 25 percent. Enterprises could expand their output by a quarter without obtaining a licences.[2] Finally in March 1970, industrial licences were declared unnecessary for the construction or expansion of enterprises valued at less than 10 million in some cases.[3]

The system of control over capital issues was also simplified. In 1966 control over capital issues by private

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1: Fourth Five Year Plan, New Delhi 1970, p.305.

2: Ministry of Industrial Development and Company Affairs, Report, 1967-68, Delhi 1968 pp 7-8.

Also see Report on Currency And Finance for the year 1966-67, Bombay 1967, p12.

3: See Fourth Five Year Plan Delhi 1970, p.308.

limited companies, including insurance and banking companies, was discontinued. Public companies were also exempted from having licences for capital issues but they were required to inform the respective authorities before hand. If no objections are raised, within a month's time they can proceed with their schemes. However, control over the issue of bonus shares remained in full force.[1] In 1963 control over the prices and distribution of paper, card board, window glass, tyres and inner tables, synthetic fibres, caustic soda, soda ash, ferrous metals, coal, cement, coke, sugar, cotton fabrics and other commodities was either relaxed or completely abandoned.[2] Abolishing control was not without unfortnuate resluts. Speculating in cement became so widespread that the government was compelled in 1968 to reintroduced control[3] and in 1969 it reintroduced price, control over tyres.[4] By the begining of 1970, the State control over prices remained in effect only on some consumer and producer goods

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1: Indian, Pocket Book of Eco. Information 1967, New Delhi p.7
2 : Report of Currency & Finance, Bombay 1968, p.12
3. : Govt. of India Economic Survey, 1967-68, New Delhi, p.13
4 : Govt. of India Economic Survey 1969-70, New Delhi, p.41

including grains, sugar, cotton and woolen fabrics, cement synthetic rubber, tyyes and cars.In some industries prices were fixed by business association under Govt. supervision.

Changes were also made in the import and foreign exchange control. Following the devaluation of the rupee in 1966, prices on imported articles sold on the domestic market soared. This fact in itself curbed the activities of the profiteers who dealt with import licences and imported commodities. The import of 260 types of commodities(mostly machines, chemicals and medicines) was prohibited, and only 59 basic industries were given licences to import raw materials, components and spare parts according to their applications.[1] In practice this meant that the import of machines and equipment was largely replaced by the import of raw materials and semi finished products. This policy provided for a better utilisation of the existing industrial capacity, but held back new projects and delayed the establishment of domestic production of compoments.

1: Report on Currency & Finance for the year 1966-67, Bombay 1967,p.12.
Also see Eastern Economist, Delhi 1968,p.12.4.

Taxation measures were aimed at making industry more profitable and more capable of self-financing. Keeping in view this objective, the Taxation Enquiry Commission recommended that the profits of all new enterprises to the tune of 6 per cent of the invested capital be exempt from taxation. Besides,in 27 of the so-called priority industries, taxes were to be imposed on only 92 per cent of the profits made; the remaining 8 per cent were altogether exempt from taxation. Excise duties in some industries were reduced for the same reasons. In the year 1965-66, reduced excise duties (by 75-85 per cent as compared with the year 1964-65) were introduced on all additional output of cement alluminium, paper and castic soda. The profits thus secured were to be made for settling accounts or expanding fixed capital.
In 1956, the Govt. introduced a tax on dividends exceeding 6 per cent in order to restrict the non-productive utilisation of profits. Subsequently, it was annulled, but in 1965 re-introduced on all dividends exceeding 10 per cent of the paid up capital. Taxes on bonus shares have been levied since 1965.[1] The only tax

1: Pophale,G.L.,A Quarter Century of Direct Taxation in India 1939-64 (A Historical-cum-Critical Survey) Bombay 1966, p.397.

concession for shareholders applied to dividends paid by enterprises which had been declared tax-free for the initial five year period of operation.[1] However, a new taxation policy was adopted in 1960 to counter the effects of the stagnating capital market. All dividends totalling less than Rs.500 a year have been made exempt from taxes as from 1968-1969. In 1970-71, the same ruling was applied to all dividends of less than Rs.5,000 a year provided that they were paid by companies registered in India, by corporations or by the Unit trust of India Buyers of new shares issued by companies holding paid up capital of more than Rs. 2 million are entitled to an income tax rebate of 2 to 5 per cent for a period of 4 years, provided their investments do not exceed Rs.35,000. In 1964, a five year wealth tax exemption was granted to the shareholders of new industrial companies.[2] In 1970-71 the exemption was entitled to investments of less than Rs.1,50,000 held in companies, corporations and the Unit Trust of India.

1: ECAFE, Economic Survey of Asia and the Far East 1964, Bang-Kok,1965,p.20.

2: Third All India Conference of Tax Executive 15-16 Novem, ber,1968 Delhi,1969,pp 1-10.

The system of taxation also encouraged in meny ways the replacement of modernisation of machinery and equipment. In 1957, all enterprises working two shifts were allowed to increase depreciation deductions by 50 per cent and enterprises working three shifts by 100 per cent. This was done to ensure better utilization of machines and equipment. Then taking into account the rising prices of equipment building materials etc. different rates of depreciation charges were fixed for the industrial assets established in different periods.[1] Following the devaluation of the rupee in 1966, all enterprises which employed equipment imported on credit or on an instalment basis were allowed to revalue the assets. Special rules of depreciation charges were established for investment, in research, procurement of patents and licence etc.

The development rebate is also an important concession granted by the Govt. for encouraging the expansion of indutries in the private sector. In the year of installation of new equipment (irrespective of the purpose of establishment of new capacity, expansion or modernisation of the existing production)

1: NCAER, Replacement cost in Indian Industry, Delhi, 1961, p.7.

the enterprise is allowed to put down part of the cost of the equipment against direct production costs. The ordinary depreciation on the new equipment are to be made in the usual way. The savings from the rebate must be directed to special reserve fund which can not for a period of 10 years be issued either to pay dividends or issue bonus shares, or for other non-productive purposes.[1] Frpm time to time the amount of the development rebates and the number of industries they encampass came under review of the Govt. In the case of all the priority industries, the rate is now fixed at 35 per cent of the initial cost of equipment and machinery installed prior to April 1,1970 and 25 per cent cost of equipment installed after March 31,1970. In all other industries it is fixed at 25 per cent and 15 per cent of the cost of equipment before and after April 1,1970 respectively.[2] Thus the development rebate and the normal depreciation charges bring in, after the fixed period of time has expired, a sum that exceeds the full value of the worn-out equipment. The priority

1: Report of the Direct Taxes Administration Enquiry Commission, 1958-59, New Delhi 1960, pp.38-42.

2: India Pocket Book of Eco. Information, New Delhi, 1967, p.274.

industries, for instance, get up to 135 per cent of the initial cost of machinery and equipment. In this way the enterpreneurs can get back more than half of his investment and utilise for expanding production and thus the development rebate can be viewed as investment subsidies.

The various tax concessions have unquestionably helped to attain the planned targets. The rate of profit is particularly high insome new industries which enjoy all the tax concessions. The scale of self-financing has also been expanded. During the First Five Year Plan period, the gross investments derived from internal resources (depreciation charges and reserve funds) in 750 public companies amounted to Rs.2,706 million. This compares with Rs. 5,046 million invested by 1,001 companies during the Second and Rs. 9,265 million invested by 1,333 companies during the Third Five Year Plan periods. Thus depreciation charges have been turned into an important source of internal funds.[1]

1: Reserve Bank of India Bulletin, Bombay - Sept. 1957
June 1962
December 1967.

It is generally known that the redistribution of capital between the different branches of industrial enterprises is dètermined by the law of the average rate of profit. Capital flows into the industries when the rate of profit is higher than the average, and cases as soos as the rate drops down to the average level. A low rate of profit, on the other hand, cases an out flow of capital. our government has followed different policies in respect to profit and dividends.[1] While stimulating profitability, there was an attempt to keep the rate of dividends down. Though the average rate of dividends before taxation went up from 8.2 percent in 1951-55 to 9.9 per cent in 1956-1960 and 10.6 per cent in 1961-65, the tax rates also went up. Thus the net income of shareholders(after tax payment) remained relatively stable. This, naturally caused the price of shares to fall. For example, the price of variable dividends securities droped to 76.7 points in 1967-68 (taking the prices in 1961-62 as 100); prices no doubt, went up again reaching 93.5 points in 1969-70. But this was due to an improvement in the industrial

1: A resyriction on declaration and payment of dividends was introduced in the Finance Bill of 1974 as an anti-inflatioanry measure. Under the companies (Temporary Restrictions of Dividends) Act, 1974,(Act No.35 of 1974), the companies were restricted to declare and make payment of dividends to the extent of 12 percent.Under the emendment situation.[1]

It would be interesting to note that the prices went up in the same priod by 72 per cent i.e. the real value of capital issued dropped in the period between 1961-62 and 1969-70 by almost a half, reducing the inflow of capital into the industry. In 1961 the private and public undertaking agencies were left with Rs.29.4 million worth of unsold capital issues; a few years later, in 1967, the unsold stock was valued ar Rs.161.7 million During the same period the share of unsold capital issues went up from 25.4 to 37.9 per cent of the total amount accepted for underwriting.[2]

Under the circumstences the industry in private sector could hardly expect a speedy growth of investment. It was, therefore, necessary on the part of the Govt. to withdraw funds from other sectors and direct them into industry. Keeping in view this need the Reserve Bank of India began to enforce credit control and to encourage medium term credits for industry by extending the system of guarantees. The Reserve Bank assumed the responsibility

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1. Govt. of India, Economic Survey, 1969-70, New Delhi, 1970, p.101
2. Reserve Bank of India Bulleting Bombay, July 1970, p.115

for clearing off a fixed portion of the credits which banks were extending to tea plantation and small scales industries, in the event of latter failing to settle accounts within the agreed time limit.[1] It also played an important role, however, in granting credits to the various public industrial financing corporations. The State Bank of India, on the contrary was mostly concerned with the direct financing of industry. In the mid-1960s industry accounted for approximately 80 per cent of all of the bank's credit operation.

There are two main tendencies obserable in the bank's policy. Firstly credit is being extended to a rapidly increasing number of undertakings, notably small scale and medium ones; secondly, there is a shift from short to medium term credits.[2] Being the biggest commercial bank of the country, the State Bank and its credit policies also affect the operation of the other private commercial banks.

INDUSTRIAL EXPANSION:

On the eve of her independence, India was having great industrial potential. In absolute figures - the number of

1: Business Digest of India, Bombay, Feb. 1962, pp 9-10

2: Ibid., pp 82-83.

industrial enterprises and workers, the gross industrial output the volume of the value added by manufacture and the degree of industrial diversification - India was way ahead of the other countries which are now referred to as developing. A characteristic feature of the economic structure of India was in actual fact the overwhelming predominance of agriculture over industry The census of 1951 revealed that only 13.35 million people or 9.6 per cent of the gainfully employed population, were engaged in various industries.[1] The contribution of industry to the national income produced in the entire economy was also insignificant. According to estimates, our national income for the year 1948-49 amounted to Rs.86,500 million, of which only Rs.14,000 million or 17.1 per cent came from industry.[2] The Structure of Indian industry in 1951 is given below in Table No.I.(17)

1: See Census of India,1961,Delhi 1962,p. 395.

2: See Estimates of National Income,1948-49 to 1956-57, Delhi 1958, p.11.

Table No.I (IV)

Structure of Industry in 1951

Industry	Total capital Employed		Gross Production		Employed	
	Rs. Million	Percentage	Rs. Million	Percentage	Thousand	Percentage
1	2	3	4	5	6	7
Pressing & Ginning of Cotton & Jute.	226	1.99	538	2.44	148	4.82
Discorticating of ground nuts and cashew pressing of pulses	69	0.51	338	1.53	76	2.47
Rice Milling	160	1.80	678	3.08	57	1.84
Sugar(including gwr)	704	5.28	1083	4.92	131	4.28
Veg.Oil including hydrogenated oil	665	4.98	2854	12.07	85	2.78
Tea	860	6.45	1203	5.47	120	3.90
Tobacco	277	2.08	818	3.72	143	4.67
Cotton Textile	2988	22.43	5297	24.01	823	26.84
Jute	819	6.14	2229	10.13	303	9.86
Silk including rayon	172	1.28	228	1.03	57	1.84
Soap	94	0.70	220	1.00	8	0.26
Leather & Tranning	85	0.65	329	1.49	23	0.94
Paper	215	1.61	227	1.63	28	0.90
Printing	359	2.69	314	1.43	80	2.61
Cement	190	1.42	219	1.00	18	0.57
Ferrous Metallergy						
Primary	435	3.26	493	2.24	64	2.08
Secondary	394	2.95	504	2.29	87	2.85

1	2	3	4	5	6	7
Non-Ferrous Metallery						
Primary	48	0.35	47	0.21	4	0.13
Secondary	125	0.92	189	0.86	21	0.71
Engineering Repairs shop	194	1.45	188	0.85	52	1.69
Production Enterprises	369	2.77	322	1.46	76	2.47
Automobile	285	0.14	337	1.53	53	1.74
Chemical & Pharmaceutical	447	3.35	540	2.45	51	1.66
Power Generation	1898	14.32	2756	12.62	529	17.23
Miscellaneous	1 210	9.08	252	1.14	30	0.97
Total	13,326	100.00	21,985	100.00	3,067	100.00

Source: National Sample Survey No.15, Report on the Sanple Survey of Manufacturing Industries 1951, New Delhi, p.450.

The industrial progress of our country can be seen through the following table:

Table No. 2(IV)

Index No. of Industrial production (Base 1960=100)

Year	Index	Percentage change
1	2	3
1950	49.1	-
First Plan		
1951	54.8	11.6
1952	57.2	4.4
1953	58.2	1.6
1954	63.4	9.1
1955	72.7	14.7
Percentage change(1950-55)	-	48.1
Second Plan		
1956	78.4	7.8
1957	82.7	5.5
1958	84.4	2.1
1959	90.3	7.0
1960	100.0	37.7
Percentage change(1960-65)	-	53.8
Third Plan		
1961	109.1	9.2
1962	119.7	9.2
1963	129.6	8.3
1964	140.8	8.6
1965	153.8	9.2
Percentage change(1960-65)	-	53.8

1	2	3
Annual Plans		
1966	153.2	-0.4
1967	152.6	-0.4
1968	163.2	6.9
Percentage change(1950-68)	-	232.2
Fourth Plan		
1969	175.3	7.5
1970	180.8	3.2
1971	186.1	2.9
1972	199.4	7.1
1973	200.6	0.6
1974	200.8	0.6
Percentage change(1950-74)	-	311.0

Source: The table has been farmulated on the basis of data collected from 'Monthly Statistics of the Production of selcted industries of India - variousissues.

It is clear from the table that between 1950 and 1955 industrial output increased by about 48% and between 1955 and 1960 it rose by about 38%. Thus, the percentage during the second five year plan is smaller than that obtained during the first five year plan. The reason is that at the outset of the first plan our industrial base was small and its diversity was limited. Moreover, during first plan period, most of the increased production was secured by exploiting idle capacity whereas during the second plan the growth in production was attained by establishing fresh capacity in some of the highly advanced sophisticated and complex undertakings. Thus the second plan was directed towards qualitative development whereas the first plan was quantitative.

The quatitative development strategy was maintained during the third plan as well. Although during this period our country was facing acute shortage of essential raw materials, rising inflationary tendencies and expanding consumption propensities our industrial production increased by over 8% per year. But, since about the end of third plan period, Indian industries began to run under a critical stage.The industrial production declined to 0.4% in 1966 and 1967 over the corresponding previous year. This deficit in industrial production was due to many factors, acute power shortage, scarcity of many essential raw materials, unexpected drought in many states, continuing inflationary pressure, deteriorating labour situation, declining rate of saving and investment, and curtailment of foreign aids etc.

However, the situation began to improve from 1968. Although it was not sufficient to meet the demand, it was substantial in the light of poor achievement during 1966 and in 1967. In 1973 and 1974, the industrial increase was a mere 0.6 per cent The factors responsible for limiting the industrial expansion were lack of critical raw material and power together with insufficient demand for the output which came out in utilised capacity in the industrial sector. The measures adopted to remove these deficiences are ancouragement of public investment, formulation of appropriate fiscal and monetary policies, enhancement of private investment and rationalisation of procedural formalities for enduring fast implementation of projects. The success of these measures is clearly visible in the performance of industrial enterprises in subsequent years.The growth rate of industrial outout was 2.5 per cent in 1974-75, which increased to 5.9 per cent in 1975-76, more than the initial expectation of 4.5%.Moreover, the growth rate in the last quarter of 1975-76 has been of the order of 10% over the respective period of the last year.

It is thus clear that a suitable industrial base has already been established in the country. There is a tendency to establish both consumer's goods as well producer's goods industries. According to a report[1] there were 12513 registered factories in the country in1967, while at the end of 1973, there were 70,000 small and big factories engaged inthe production of goods.

Industrial Progress During Plan Priods:

Although inthe first five year plan only 6% of the total outlay was invested in industries, yet the industrial expansion was phenomenal. The index number of industrial production which was 100 at the time of start of the plan increased to 139 at

1: Annual Survey of Industries Report 1967.

the end of the plan. In the private sector a number of industries like sugar, cotton textiles, caustic soda, jute, electric transformers and alluminium were developed and expanded. Under the second five year plan 18.5% of the total proposed outlay was ear marked for industrial development. During this plan, Rs, 187 crores were spent for industrial development in the private sector, which was roughly 4% of the total investment. The increased in annual industrial production during the plan was 7% and the index number of industrial production rose from 139 to 194.

In the third plan, the total outlay was estimated at Rs.11,600 crores (Public sector outlay Rs.7,500 crores and private sector outlay Rs.4,100 crores). During this plan the industrial progress remained uneven and unbalanced. Inspite of rather uneven performance, significant achievement contributing towards the realisation of diversified industrial structure were made during this period

Under the three annual plans from 1966-69, the total expenditure was estimated at Rs.6,756.5 crores. Out of this industries and minerals were allocated Rs.2,719.1 crores.

During 1966-67 and 1967-68, the annual industrial progress was 0.2% and 0.5% respectively.In 1968-69;this rose to 6.2%.

The following table reveals the investment outlay in the fourth plan.

Table No. 3 (IV)

Investment outlay in the Fourth Plan
(Rs. thousands million) 1966 prices

	Public Sector	Private Sector	Total
Machinery and Enginering	3.5	4.5	8.0
Iron and Steel	16.2	3.8	20.0
Other Metals	3.3	-	3.3
Non-Metallic minerals and mining.	8.1	16.0	24.1
Miscellaneous	1.6	-	1.6
Fertilisers and Pesticides	2.7	2.2	4.9
Electricity	20.3	0.5	20.8
Railways	20.9	-	20.9
Total	76.6	27.0	103.6
Small scale industry	2.3	3.2	5.5
Other industry	30.3	38.3	68.6
Agriculture and Irrigation	25.4	9.0	34.4
Grand Total	135.1	80.5	215.6

Source: Paul Streetpn and Michacl Lipton: The crisis of Indian Planning, Oxford University Press, London 1968, p.70.

An outlay of Rs.24,882 crores was ear-marked for investment out of which Rs. 8,980 crores were meant for private sector. The following table reveals the industrial targets and achievements during IV Plan.

Table No. 4 (IV)

Industrial targets and Achievements During Fourth Plan.

Items	Unit		Fourth Plan Target	1969-70	1970-71	Anticipated Achievement 1971-72
1. Steel ingots	lakh	tons	108	64.3	61	67.5
2. Finished steel	"	"	81	48.0	44.7	56
3. Aluminium	000	tons	220	135	168.7	179.8
4. Tractors	000	Nos.	50	17	20	35
5. Iron Ore	lakh	tons	514	280	280	300
6. Petroleum	"	"	85	67	70	75
7. Machine tools	Rs.	cores	65	27.2	23.00	42.0
8. Diesel Engines	000	No.	200	133	67	70
9. Paper	000	tons	850	724	756	800
10. Cotton Textiles	M.Meters		5100	4192	4200	4300
11. Jute Textile	000	tons	1400	944	1050	1100
12. Sugar	"	"	4700	4260	3765	3400
13. Cement	lakh	tons	180	138	144	155
14. N. Fertilizers	100	tons	2500	715.6	930	1130

Source: Singh, S.P & Gambhir, T.R. Rajiya Evam Udyog (Hindi), S.Chand & Co., Delhi, p.161

The table reveals that during the first ten years the industrial progress was not satisfactory. Under the Fifth Five Year Plan, out of the total out lay, Rs.16,161 crores have been allocated for private sector industries. An over all view of the industrial progress can be had from the following table which shows the index number of industrial production supposing 1960 as base year.

Table No. 5 (IV)

Index Number of Industrial Production

(1960=100)

	1951	1961	1966	1969	1973
1. General Index Number	54.8	109.1	153.2	172.4	196.[illegible]
2. Basic Minerals	46.5	118.7	191.5	209.7	245.[illegible]
3. Cotton Textiles	79.7	102.8	108.9	107.6	125.[illegible]
4. Chemical Pulp	42.4	113.4	168.4	217.5	283.[illegible]
5. Paper	38.5	105.8	160.0	201.7	233.[illegible]
6. Petroleum	11.0	106.0	195.9	282.6	309.[illegible]
7. Machinery except Electrical	22.2	121.2	295.6	383.2	422.[illegible]
8. Electricals	26.3	113.6	225.1	322.9	409.[illegible]
9. Minning	66.6	105.4	136.1	147.4	169.[illegible]

Sources: General Statistical Organisation's Publication Monthly Abstract of Statistics, July 1973, pp 15-16 R.B.I 'Bulletin Sep. 1973, pp. 1530-31 and India 1973, p. 274.

The table No. 6(IV) below shows the industrial production and performance in different years:

Table No.6 (IV)

Industrial Production and Progress

	Unit	1951	1956	1961	1966	1969
1. Sugar	Lakh Tons	12.7	17.0	226	17.9	35.7
2. CottonTextiles	M.Meters	311	404	392	393	347
3. Jute	000 Tons	74.1	92.6	83.9	93.3	74.5
4. Paper and Pulp	" "	11.2	16.4	30.4	48.7	58.9
5. Cement	" "	271	417	687	922	1135
6. Steel	lakh tons	8.6	10.6	23.3	37.4	40.4
7. Iron Ore	" "	15.2	16.3	41.6	58.7	61.4
8. Aluminium	000 Tons	0.3	0.5.	1.5	5.4	11.1
9. Tractors	Nos.	-	110	583	634	1508
10. Transformers	000 Nos.	16	77	150	399	421
11. RailwaysWagon	Nos.	-	1335	1380	1389	1312
12. Diesel Engines	000 Nos.	0.6	1.0	3.7	8.9	11.8
13. Coal	M.Tons	2.9	3.3	4.7	5.9	6.6

Sources: Singh, S.P & Ghambhir, T.R. - Rajiya Evaum Udyog (Hindi), S.Chand & Co., Delhi, p.156.

The decade 1950-61 has witnessed striking development of industrial in the private sector - in term of the rate as well as the pattern of growth. Some idea of the trend may be obtained from the following indices of industrial production.

Table No. 7(IV)

Index No. of Industrial Production
(1950-51=100)

Group	1955	1960-61
General Index	139	194
Cotton Textiles	128	133
Iron Steel	122	238
Machinery (all type)	192	503
Chemicals	179	288

Source: Third Five Year Plan, Government of India, Planning Commission, New Delhi, 1961, p.39.

The index number of industrial production recorded a cumulative rate of expansion of about 7 per cent for annum. The actual increase, was, in fact, more pronounced than indicated by the above figures, because number of industries have generally shownmore marked progress.

Even more significant than the quantum of industrial development has been the direction in which the expansion has taken place. The following table gives some idea of the progress made in the production of some important industries during the decade 1950-61.

Table No. 8 (IV)

Item	Unit		1950-51	1960-61
Steel ignots	million	tons	1.4	3.5
Cement	"	"	2.7	8.5
Cotton Textiles	"	Yards	3720	5127
Sugar	"	tons	1.1	3.0
Almunium	Thousand	"	3.7	18.5
Diesel Engines	"	"	5.5	40.0
Electric cable	"	"	1.7	22.0
Fertilisers (nitrogen)	"	"	9	110.0
(phosphatic)	"	"	9	55
Paper and paper board	"	"	114	350
Bicycle	"	"	101	1050
Automobile	"	"	16.5	535

Source: Third Five Year Plan, Government of India, New Delhi, 1961

CONCLUSION:

In conclusion it may be said that government controls and regulations of industry are designed not only to accelerate industrial expansion, but also to ensure normal reproduction. Thus controls and regulations are not exclusively related to the problems of industrialisation, because the government directs only a part of control machanism for the purpose of industrial expansion. The scope of controls are much wider. Secondly, though the controls and regulations are primarily designed to restrict the unbalanced and haphazard development of the private enterprise, it also applies to the activities of other sectors of our economy. A third point to remember as is that state control and regulations was not entirely unknown to our country. In following the policy of controls and regulations, the government utilised to a certain measure, the existing system of the coordination and control. In the new situation the system was, of course, thoroughly reveiwed and was made to serve the national interest.

State control was intended initially to limit the influance of the market laws and adopt them to the needs of economic development. The spontaneous market laws ensure a greater harmoney between supply and demand and can clear the way to the improvement of the principal indices charactrising the opration of private senterprises: reduction of the idle time of installed capacities and the capital intensity and increasing the value added by the manufacture and profits. Such a task could not be fully accomplished because of the specific nature of India's economic conditions, the shortcomings and lacuna of the control system itself. Since India is beset by a general economic backwardness and has to cope with a multitude of structure and forms of production from domestic handicrafts to modern large scale production, state control, however, important it may be, could not for the following reasons ensure swift industrial growth. In the first place, a mixed economy does not redistribute capital on the basis of laws of the market. The funds amassed ny measures of primary accumulation, are usually invested in non-productive or less productive feilds. In the second place, the infra structure (power, transport, communication, water supply, training of the skilled labour, research etc.) was insufficiently developed. In the third place, the profits made on industrial undertakings were intially lower than in other economic fields due to poor market opportunities, strong foreign competitions, inadequate technical and organisational skill etc. Fourthly, the different structure and forms of industrial production meant that there could be no common process of production in industry as a whole. And finally, the industrial finance provided by the government controlled agencies and financial corporations had its own impact on the industrial expansion of the country. In the next chapter, an attempt has been made to examine the emergence of institutional financing and its impact on industrial expansion in the private sector.

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C H A P T E R - V

CHAPTER - V

IMPACT OF INSTITUTIONAL FINANCING ON INDUSTRIAL EXPANSION

In the preceding chapter, it has been observed that financial accommodation plays an important role in the industrial expansion of the country. There has been a structural change in the system of provision of finance to industry since 1951. Till 1951, the setting up of industry and its financing were left essentially to the private sector, and the state intervened in the process as a regulatory agency. Such a system gave an advantage to established and big industrial houses which alone could hope to raise finance on the market. New enterpre-nures and freshers had to depend upon a limited circle of friends and relatives for raising money for their projects. It was, therefore, necessary to set up special agencies to provide industrial finance. This was the genesis of the structure for providing industrial finance which began to be set up in the country soon after the launching of the country's planning efforts. This process has by now led to a fairly developed structure of institutional financing in the country. Reliance of private ~~sector~~ industries on institutional financing has been increasing and indications are that this dependence would still grow in years to come. The most important characterstic of these financial institutional in India is their being predominantly government controlled and regulated. It may also be pointed out that, whilst the industry would stand to loose by over-elaborate state controls and regulations it stands to gain in other respects. For instance, certain measure of financing is directly supplied by the state controlled financial agencies. Hence, this chapter attempts to highlight the importance of institutional financing in the industrial growth of the country and its implications. A brief description of the institutional machinery providing industrial finance in the country has also been made.

In additional to a number of other sources of finance which are available to the private industry, it is also financed by the specialised financial institutions. Their importance is steadily rising. The most important are Industrial Finance Corporation of India (I.F.C.I.) founded in 1948, the Industrial Development Bank of India (I.D.B.I.) founded in 1964, the National Industries Development Corporation of India (N.I.D.C.I) founded in 1954, the Industrial Credit and Investment Corporation of India (ICICI) founded in 1955, the Unit Trust of India (UTI) founded in 1964 and the Life Insurance Corporation of India (LIC) nationalised in 1958. In addition, there are corporations for financing individual industries (small scale industries, tea plantation etc.) Beginning in 1951, each state has also set up its own financial and industrial corporations.

INDUSTRIAL DEVELOPMENT BANK OF INDIA:

In the system of specialised financial institutions the leading place is held by the Industrial Development Bank of India (IDBI) which was founded in July 1964 in terms of Industrial Development Bank of India Act, which was passed by the parliament in May, 1964. It was set up as a wholly owned subsidiary of the Reserve Bank of India for providing credit and other facilities for the development of the industry and for matters connected therewith. The Industrial Refinance Corporation was incorporated into it, and it received 50 per cent of the shares of the Industrial Finance Corporation. Its funds are raised from share capital, the Govt.'s interest free loan, and shares and debentures distributed in the money markets. The Bank also accepts time deposits made by members of the public. The main function of the bank is to provide finance to the industrial enterprises such as manufacturing, mining, processing, shipping and other transport industries and hotel industry.

In fact, it was conceived not merely as a financing institution but also as a developmental agency to develop certain vital industries like fertilisers, alloy and special steel and petro-chemicals. It has also to act as an apex institution separated from the Reserve Bank of India,[1] coordinating the activities of the other term-lending institutions in all forms, namely, loans, underwriting, refinance and guarantee. The Bank is also authorised in its charter to undertake market

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1: The Restructured Industrial Development Bank of India started functioning from February 16,1976 (See The Times of India, Bombay, 14th February, 1976, p.2.)

and investment research, surveys and techno-economic studies, provides technical and administrative assistance to any industrial concern or any person for promotion, management or expansion of industry and plan, promote and develop industries to fill up gaps in the industrial structure in India.

A distinctive feature of the IDBI statute is the provision for the setting up of a special fund called the Development Assistanse Fund (DAF), which is intended to assist, with the prior approval of the Central Government, such industrial projects as are unable to obtain funds from financial institutions in the ordinary course for various reasons (e.g. unusually heavy investment involved or long gestation period) but are nevertheless important in the interests of the industrial development of the country. The activities of IDBI fall into five broad groups: direct assistance to industrial concerns, refinancing of industrial loans granted by banks and other financial institutions, rediscounting assistance, finance for exports and assistance to other financial institutions such as the industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), State Financial Corporations (SFCS) and Industrial Reconstruction Corpoartion of India (IRCI), by way of subscription to their shares and bonds. IDBI's statute gives it considerable operational flexibility. It can finance all types of industrial concerns engaged or to be engaged in the manufacture or processing of goods, or in mining, transport, generation and distribution of power and hotel industry, both in the public and private sectors. The statute of IDBI contains no restrictive provisions regarding the nature and type of security that may be accepted from assisted concerns. Also no upper or lower limit- either for assistance to a concern or of the size of concern itself have been prescribed though for operational convenience some minimum limits are kept in view. Direct financial assiatnce by IDBI to industrial concerns takes the form of loans, subscription to and or underwriting the issue of stocks, shares bonds or debentures, and guarantees for loans and deferred payments. Assistance is usually granted for acquisition of fixed assets for setting up new units as well as for expansion, modernisation or renovation schemes of existing units. IDBI normally confines its direct assistance operations to public limited companies, though exceptions are possible. In actual practice, IDBI's direct assistance has been made use of by large-scale projects and those medium-sized projects which have not been able to obtain their full requirements from the other term-financing institutions. This is mainly due to the facts that the needs of most small entrepreneurs are expected to be taken care of by commercial banks and the SFCs. IDBI supports them by refinancing their industrial ~~terms~~ term loans and by subscribing to the shares and bonds of SFCs. This division of labour enables IDBI to concentrate onlarge and complicated projects involving huge capital outlay or sophisticated technology which rely to a considerable extent on IDBI's financial support. Since IDBI has been created to supplement and not supplant the activities of other financial institutions, it normally prefers not to assist projects whose needs could be met by other institutions. Even so, IDBI endeavours to ensure that no worthwhile project-however, small is allowed to languish for insufficiency of institutional support. It taked particular care to be of assistance in the case of projects- promoted by technician entrepreneurs, located in the less developed areas of the country, exploring new areas of technology, which may not find ready support from other institutions.

IDBI maintains close working relationship with other term lending institutions including commercial banks, in the appraisal and consideration of applications. Views are exchanged at the monthly inter-institutional meetings of senior executives of IFCI, LIC, UTI and IDBI, so that coordination of approach is maintained during the processing of the applications. A joint appraisal is carried out in appropriate cases. Where the assistance takes the forms of a loan, the period of repayment is settled taking into consideration the repayment capacity of the industrial concern. Usually, amortisation is spread over a period of 8-10 years after a grace period of 2-5 years. The current rate of interest is 8½ per cent per annum. In the case of assistance in the form of guarantees, a gurantee commission of 1 per cent per annum is charged. IDBI loans and guarantee usually secured by a mortgage of the concerns' immovable properties and a floating charge on other assets, subject to a charge in favour of banks on raw materials, stocks etc. for working capital borrowing. Where IDBI underwrites shares issues, it charges an underwriting commission of 2½ per cent on the face value of the amount of underwriting: in the case of debentures the underwriting commission is 1½ per cent.

The IDBI provides direct financial assistance on concessional terms to projects in backward districts/areas in various states specified by the Planning Commission for the purpose. Direct loans to industrial units in backward areas would be given at a concessional rate of 7 per cent, instead of the present normal rate of 8½ per cent. Other concessions in terms and conditions include longer grace and repayment periods and rebalance of the loans. In underwriting shares and debentures the Bank would charge a lower underwriting commission and may, in addition, subscribe relatively heavily to the shares capital of projects in backward areas. The usual terms pertaining to the promoters' contribution in relation to cost of project and marginfor loans may also be relaxed. The IDBI may also be prepared to bear initially the cost of consultancy services to prepare feasibility reports, subject to reimbursement later when the project reaches the profitability stage. The above concessio would generally be available for projects involving a total up to Rs.1 crores; concessional finance for bigger projects w be on a selective basis.

IDBI's refinance facilities are available in respect o terms loans granted to industrial concerns by commercial bank SFCs and State Cooperative Banks. Normally, the loans should be for financing fixed assets, but may include a portion of worki capital, if such working capital is required on a term basis. The minimum amount of a loan that is normally refinanced is Rs. 2 lakhs which is relaxed inthe cases of projects already a assisted under the scheme; in the case of loans to small-scale industries gurantees under the Central Government's Credit Gurantee Scheme and to small road transport operators, the maxi mum limits have been fixed at Rs.10,000 and Rs. 20,000 respectivel To be eligible for refinance, the minimum period of loans shoul be 3 years; the maximum period in respect of loans given by commercial and State Cooperative Banks may up be to 10 years and up to 25 years in the case of term-lending institutions i.e., the

IFCI, SFCs etc. IDBI normally refinances up to 80 per cent of the eligible loans; but in the case of loans to small-scale units convered under the Credit Gurantee Scheme, loans up to Rs. 20 lakhs to small and medium sized projects in specialised backward areas and loans up to Rs. 5 lakhs in other cases, refinance is provided up to 100 per cent.

The IDBI's structure of interest rates for refinance assistance is given inthe following table.

Table No.1 (V)

A. Rate of interest	IDBIs rate	Ceiling rate for primary lenders.
	(Per cent per annum)	
a) Normal rate	6.75	10.25
b) Concessional rate	7.00	10.50
c) Special rate for small scale industrial units convered under the Credit Gurantee Scheme	5.00	8.50
d) Special rate for units in backward areas	3.50	7.00
B. Commission charge	1 per cent on the amount of refinance remaining undrawn after a stipulated period.	

Source: Brochure Issued by the IDBI.

Apart from the special concessional rate, the other facilities extended to units in backward areas relate to dispensing with levy of commitment charge, longer grace and repayment periods, deferment of payment of interest in the initial stage, etc. provided the financial institutions in turn offer such concessions to these units. The IDBI is operating a scheme for rediscounting bills arising out of sales of indigenous machinery on deferred payment basis. Under the scheme, which is intended to promote the sale of indigenous machinery and equipment (including motor vehicles) bills/promissory notes drawn in favour of or by the machinery manufactures are discounted with their bankers, these documents being in turn rediscounted by the IDBI. Facilties under the scheme are also available to approved engineering concerns which get the machinery fabricated according to their own specifications and design and sell them under their own name. Sales made by the selling agents/distributes of the machinery manufactures to purchaser users on deferred payment basis are also eligible for assistance provided the agents/ distributers have already paid the manufacturers for the machinery under sale.

In the field of export finance, IDBI has been operating two schemes for (i) refinancing of medium-term export credits granted by approved banks, and (ii) direct financial assistance to exporters, in participation with approved banks. Faciltieis under the schemes are available for exports of engineering goods and services ondeferred payment terms approved by the Reserve Bank of India and which are convered by appropriate insurance policies/gurantees of the Export Credit and Gurantee Corporation Ltd. The scope and salient features of the schemes are explained below.

i) Scheme for Refinancing of Medium term Export Credits. Under this scheme 100 per cent refinance is provided to the eligible banks against their medium term credits to exporters who may be manufacturers, recognised export houses or other exporters of standing. The facility also covers overall cost of construction projects executed abroad by Indian concerns, where the bulk of the construction contacts constitutes equipment, material and services, etc. of Indian origin. To be eligible for refinance, such credits should be for periods not less than six months but not more than ten years. Pre-shipment credit for a period exceeding six months to finance the processing/manufacture of goods to be exported can also be refinanced when linked with post-shipment credit.

No limit is prescribed as to the minimum amount of export credit not is there any ceiling on the amount which may be refinanced in respect of any one exporter.

ii) Scheme for Direct participation credit.

Under the scheme, IDBI, in appropriate cases , enters into participation arrangements with eligible banks in the provision of credit and guarantee facilities to industrial concerns for exports of engineering goods and services on deferred payment basis. Where the export contracts are secured by 'non-industrial concerns' assistance is provided to the manufacturers of the goods in their capacity as sub-suppliers or assignees under the relative export contracts.

Apart from refinancing of industrial loans, IDBI has been vested with the responsibility of strengthening the resources position of SFCs with a view to enabling them to expand and diversify their activities. The Act provides for such assistance through subscriptions to their share capital and bond issues. IDBI also contributes to the debentures of ICICI and the share capital of IFCI and IRCI.

IDBI has now completed twelve years. During this period, it concentrated on the provision of finance to strategic sectors of industry like cement, fertilisers and basic chemicals. Now that the Bank has got into stride as a financing institution, it has made a beginning inundertaking the development and promotional functions assigned to it under the charter. It has initiated surveys incollaboration with the Reserve Bank, IFCI and ICICI to identify industrial potential in the backward areas and assess the infrastructure facilities available, supplies of raw materials and market prospects for development of industries whichwould be advantageously located insuch regions. The surveys covering the States/Union Territories of Andhra Pradesh, Assam, Tripura, Jammu and Kashmir, Bihar, Rajasthan, Orissa, Madhya Pradesh, Uttar Pradesh, Nagaland, Manipur, Arunachal Pradesh, Himachal Pradesh, Chandigarh, Goa, Daman and Diu including Dadra and Nagar Haveli and Pondicherry have been completed. The survey of other Union Territories identified as backward will be undertaken in the near future. IDBI has sponsored the setting up of a technical consultancy service centre in Kerala for the purpose of identifying project ideas, preparing feasibility studies as well as detailed project reports and undertaking project supervision. Such technical consultancy organisations are proposed to be set up in some other States as well.

PROGRESS OF THE BANK:

An analysis of the leading operations shows that IDBI has granted assistance of the order of Rs. 736.2 crores in nine years. (i.e. up to June 1973). Certainly the performance of IDBI is much impressive when compared with its other counterparts' performance such as IFCI, ICICI, etc. The industry-wise classification of the assistance rendered by the IDBI indicates that the industries assisted covered a wide range including textiles,paper and paper products, basic industrial chemicals, fertilisers, cement, iron and steel, machinery manufacture, transport equipment, etc. The following table clearly indicates the industry-wise distribution of financial assistance by the

Bank as a per cent to the total asistance.

Table No. 2 (V)

Financial Assistance (Industry-wise Distribution)
By IDBI (1974-73)

Industry		Per cent
Food manufacturing except beverages		2.9
Textile (including Jute)		6.4
Paper and paper products		4.3
Manufacturing of Rubber products		0.9
Basic industrial chemical other than fertilisers		6.1
Other chemicals and chemical products		4.4
Fertilisers		11.1
Cement		2.3
Basic metal industries	(a) Iron steel basic industrics	13.0
	(b) Non-ferrous metal basic industries	1.6
Metal products except machinery and transport equipment		1.7
Manufactures of machinery except electrical machinery		32.9
Manufacture of electrical machinery appratus,etc.		4.9
Manufacture of transport equipment		1.3
Services		2.5
Others		4.6
		100.0

Source: IDBI annual report, 1972-73.

The analysis shows that machinery manufacture (32.0), fertilisers (11.1), textiles (6.4) and basic metal industries (13.0) received the most favoured treatment from IDBI. One appreciable factor is that consumer industries received only a meager portion of the total assistance. Nearly 60 per cent of the total assistance was sanctioned to basic and capital goods industries. It is a good feature for rapid industrialisation of the country.

The financial assistance of IDBI covered a wide range of activities including loans, guarantees, underwriting, direct subeription to shares and debentures, refinance and rediscount. This has been shown below:

Table No. 3 (V)

Composition of Assistance by IDBI (1964-73)

Items	Amount (Rs. in crores)
Direct loans	243.0
Underwriting and direct subscription to shares and debentures of the industrial concerns	48.8
Refinance of industrial loans	180.9
Rediscounting of Bills	185.0
Direct loans for exports	51.1
Refinance of export credit	27.4
	736.2

Source: IDBI annual report 1972-73.

The bulk of assistance given by IDBI is in the form of refinance and rediscounting whereas in the case of other financial institutions it is in the form of loans. IDBI did not have much headway in underwriting and direct subscription.

The financial assistance sanctioned and disbursed by IDBI since its inception in July 1964 to June 1972 is summarised in the table below:

Table No. 4 (V)

Financial Assistance Sanctioned and Disbursed by IDBI

Type of assistance	Assistance sanctioned (effective) July 1964-June 1972	Assistance disbursed.
1. Direct loans to industrial concerns other than for export	194.2	99.2
2. Underwriting of an direct subscription to shares debentures etc. of industrial concerns(including rights shares)	41.3	21.4
3. Refinance of industrial loans	151.8	142.1
4. Rediscounting of bills	135.2	115.3
5. Refinance of export credits	27.2	21.4
6. Direct loans for exports	48.4	25.1
7. Subscriptions to shares, bonds and debentures of financial institution (excluding purchase of shares of IFCI)	56.6	33.9
Total of 1 to 7	654.7	458.5
8. Gurantees for loans and deferred payments	28.9	19.1
9. Export gurantees	1.8	1.7

Source: Brochure Issued by the IDBI.

INDUSTRIAL FINANCE CORPORATION OF INDIA:

The Industrial Finance Corporation of India was established by an Act of Parliament in 1948. The corporation is authorised to issue bonds and debentures in the open market, to borrow foreign currency from the World Bank and other Organisations, and accepts deposits from the public. The corporation grants loans are advances to industrial concerns and subscribes to the debentures floated by them. Secondly, it guarantees loans raised by the industrial concerns in the capital market. Thirdly, it under rities the issues of stocks, shares, bonds and debentures.

The IFCI did much to finance traditional industries such as sugar, and textiles but recently the range of its activities has widened a great deal and it now finances the major industries including chemicals, petro-chemicals and engineering industries. It provides assistance for setting up new industrial projects, renovation and modernisation of plant and equipment and expension or diversification. Assistance can be utilised normally for purchase of new plant and machinery, construction of factorty buildings and purchase of factorty land, in short, fixed assets.

Ordinarily rupee loans in excess of 20 lakhs are sanctioned. Loans below this limit are normally sanctioned by the State Finance Corporations. There is no lower limit for sub-loans in foreign currency. Investment criteria are national priorities indicated in the Five Year Plans and Government policies, technical financial and economic viability of the projects, promoters' background, quality of technical, financial and executive management. Before formally applying for financial assistance, an applicant should have a certificate of Incorporation as a public limited company or a Certificate of Registration as a Cooperative Society, a Letter of Intent or a licence under the Industries (Development and Regulation) Act, 1951, if applicable, obtained from Government and the Governmental clearance, at least in principle, for import of Capital Goods, where required.

There are number of special features of the operations of IFCI namely the encouragement to new enterpreneurs and technologists promoting industrial projects, encouragement to export-oriented industrial projects, soft loans available for industrial projects located inthe districts/areas notified by the Central Government as industrially less developed, importance is given to assistance to industrial cooperative, specially sugar and cotton textiles. Concessional finance can be extended under certain conditions for the modernisation of the export oriented units in the cotton textile industry, special financial assistance is also given for the modernisation of the jute industry. The Corporation has set up an Advisory Services Department for rendering advice and guidanace to enterpreneurs and handling problems of asisted projects running into difficulties. The Corporation has sponsored a Management Development Institute for imparting training in modern management technique to the Corporations' clients, especailly new enterpreneurs and technologists.

The Corporation has, in its scope of assistance, covered a wide variety of industries, viz, chemicals, fertilisers, iron and steel, nonferrous metals, synthetic fibres, paper, sugar, cement, textiles etc. The following tables show the highlight of operations of the corporation.

Table No. 5(V)

Highlight of Operations

I. Spread of Financial Assistance (As on 30.6.1972)

	Sanctions (Net)	US$ equivalent in million	Disbursements (Rs. Crores.	US$ equivalent million
Loans:				
-Rupees	264.31	352.42	227.65	303.53
-Foreign Currency	47.20	62.93	38.42	51.23
underwritings and direct subscriptions.	34.68	46.24	23.70	31.60
Guarentees:				
-for deffered payments.	28.20	37.60	27.76	37.01
-for foreign loans	23.47	31.29	23.33	21.11
Total	397.86	530.48	340.86	454.48

II. Assistance outstanding: Rs. 203.79 crores (US$ 271.72 million)

III. Industrial Projects Assisted:

	Cooperative Sector	Corporate Sector	Total
Amount sanctioned (Rs. Crores)	87.45	310.41	397.86
Number	105	460	565

IV. Assistance to projects located in notified less developed districts/areas.

Amount sanctioned (Rs. Crores)	107.11
Number	148

Financial Summary
(As on 30.6.1972)

	Rs. Crores	US$ equivalent in million
Paid up capital	9.17	12.23
Reserves	16.02	21.36
	25.19	33.59
Borrowing from the market by issue of bonds	61.00	81.33
Borrowing from the Central Government	74.07	98.76
Foreign credits	38.42	51.23

Source: Brochure Issued by the IFCI

The corporation sanctioned assistance amounting to Rs. 558.80 crores for 794 industrial projects spread all over the country during 1948-76. The Corporation's assistance constituted 16.08 . of the cost of these project which is estimated at about Rs. 3,475 crores.[1] In sanctioning financial assistance, the corporation has given preference to projects which offer large employment potential like sugar and textile, projects which are located in relatively less developed areas, projects which are promoted by new enterprenurs and technologists, those which stimulate the growth of ancillary industries, those which contribute to growth in exports and import substitution projects and projects based on indigenous technologies. The net total

1: See Chairman's Statement at the 28th Annual General Meeting held on Thursday, the 23rd September,1976,p.8

financial assistance sanctioned and disbursed during the last twenty eight years, classified according to the Five Year Plans is shown in following table:

Table No. 6(V)

Assistance Sancti ned and Disbursed during the Five Year Elan

(Rs.Crores)

Year ending June 30	Net financial assistance				Financial assistance disbursed			
	Loan	Under writing	Guara ntees	Total	Loan	Under writ-ing	Guar antee	Total
1	2	3	4	5	6	7	8	9
PERIOD PRIOR TO FIRST PLAN:								
1949-51	8.15	-	-	8.13	5.79	-	-	5.79
THE FIRST PLAN:	27.02	-	-	27.02	10.94	-	-	10.94
THE SECOND PLAN:								
1957	9.15	-	-	9.15	9.78	-	-	9.78
1958	5.93	0.75	1.82	8.50	8.33	-	-	8.33
1959	2.77	0.87	0.27	3.91	[illegible].48	0.48	-	8.14
1960	12.62	0.10	6.06	18.78	8.41	0.17	2.09	10.67
1961	18.58	1.84	8.15	28.57	6.62	0.48	13.02	20.12
Total	49.05	3.56	16.30	68.91	40.62	1.31	15.11	57.04
THE THIRD PLAN:								
1962	17.84	0.73	0.48	19.05	10.92	0.24	0.41	11.57
19.63	19.82	4.63	10.62	35.07	15.05	3.99	3.18	22.22
1964	23.61	4.34	13.16	41.11	16.94	1.96	6.39	25.29
1965	1939	3.55	3.92	26.86	19.79	3.36	14.65	37.80
1966	21.47	3.96	1.35	26.[illegible]	23.99	4.58	2.17	30.64
	102.13	17.21	29.53	148.87	86.69	14.03	26.[illegible]	127.[illegible]

	2	3	4	5	6	7	8	9
THE ANNUAL PLANS:								
1967	12.34	1.87	4.00	18.21	29.52	2.90	5.64	38.0[illegible]
1968	14.62	1.48	0.85	16.95	23.35	1.06	2.61	27.02
1969	22.43	2.42	0.29	25.14	15.03	1.68	0.28	16.99
Total	49.39	5.77	5.14	60.50	67.90	5.64	8.53	82.07
THE FOURTH PLAN:								
1970	11.10	1.19	0.13	12.42	16.86	0.85	0.34	18.05
1971	24.29	2.20	0.42	26.91	16.28	0.87	0.20	17.35
1972	32.49	4.57	-	37.06	20.99	1.00	0.11	22.10
1973	39.10	2.02	0.64	41.76	30.00	2.29	0.61	32.90
1974	34.75	2.61	0.04	37.40	28.75	1.46	0.05	30.26
Total	141.73	12.59	1.23	155.55	112.88	6.47	1.31	120.66
THE FIFTH PLAN:								
1975	30.73	4.19	0.50	35.42	36.02	1.06	0.34	37.42
1976	49.68	4.92	-	54.60	41.57	2.40	-	43.97
Total	80.41	9.11	0.50	90.02	77.59	3.46	0.34	81.39

* include direct subscription of 6.51 crores

Note:- The figures given inthe Table do not tally with those given in the Annual Reports for previous years on account of cancellations/adjustments subsequently made in the figures for the previous years.

Source:- Annual Reports of the Industrial Finance Corporation of India.

The following table gives the highlight of operations of the corporation.

Table No. 7(V)

Summary of operations

	1975-76			1948-76		Amounts outstanding as on June 30, 1976
	Sanctions		Amount disbursed	Amount sanctioned	Amount disbursed	
	No.	Amount				
Loan						
Rupee	93.	45.85	38.58	396.41	350.64	218.06
Foreign Currency	20	3.83	2.99	61.45	51.77	26.51
Total	113	49.68	41.57	457.86	402.41	244.57
Underwritings						
Equity shares	40	3.16	1.34	21.90	10.88	8.20
Preference shares	6	0.43	0.12	9.70	7.27	4.90
Debentures	-	-	-	10.13	8.58	3.47
Total	46	3.59	1.46	41.73	26.70	16.57
Direct subscriptions						
Equity Shares	4	0.26	0.87	3.37	2.09	3.32)*
Preference shares	2	0.07	0.07	0.32	0.30	0.82)
Debentures	1	1.00	-	2.82	1.82	0.17)
Total	7	1.33	0.94	6.51	4.21	4.31
Guarantees						
For deferred Payments	-	-	-	28.87	28.76	2.40
For foreign loans	-	-	-	23.83	23.33	3.10
Total	-	-	-	52.70	52.09	5.50
Grand Total	166 *	54.60	43.97	558.80	485.41	270.95

* include Rs.0.87 crores representing part

of outstanding loans (overdue interest etc.)

of 5 concerns converted into shares Rs.0.16 crores of convertible debentures of two concerns converted into equity shares loan amount converted into ewuity shares in respect of nine concerns, where the condition of right of conversion was stipulated, at the time of sanction of loan assistance.

@ These sanctions were made to 107 concerns

Source: The Annual Report of the Industrial Finance Corporation of India.

The following table gives the industry-wise distribution of assistance.

Table 8 (V)

Industry-wise Distribution of Assistance for Projects in Notified Less Developed Districts/Areas -1948-76.

Industry	No. of Projects	Project cost	Assistance sanctioned
1	2	3	4
1. Sugar	53	157.17	51.53
2. Textile	52	96.06	26.50
3. Paper and paper products	14	87.00	15.40
4. Cement	12	142.02	13.25
5. Chemicals & chemical products			
Basic industrial chemicals	10	25.08	33.55
Fertilisers	7	218.07	6.32
Synthetic fibres	1	7.90	0.65
Other chemicals & products	11	9.88	2.63
6. Non-ferrous metals	4	63.90	13.12
7. Iron & steel	21	115.26	10.89
8. Rubber products	7	137.80	8.37
9. Misc. non-metallic mineral products	7	25.37	5.39
10. Metal products	9	13.95	4.90
11. Electrical machinery and appliances	7	17.57	3.67
12. Transport equipment	8	47.37	3.62

1	2	3	4
13. Machinery	6	35.62	3.53
14. Jute	6	5.35	2.50
15. Mining	4	48.09	1.80
16. Wood products	3	2.60	1.77
17. Glass	4	8.48	1.55
18. Hotel	2	2.86	0.48
19. Misc. food products	2	2.52	0.48
20. Electricity	2	0 .66	0.43
21. Leather products	1	1.65	0.19
Total	254	1269 .33	103.59

Source: 28th Annual Report of Industrial Finance Corporation of India, p.35.

The net cumulative assistance sanctioned by the Corporation in July 1948 upto 13th June 1973 amounted to Rs. 439.82 crores. This comprised rupee loans of Rs. 300.87 crores, foreign currency loans of Rs. 48.87 crores, underwriting and direct subscription to shares and debentures of Rs. 36.91 crores and gurantees to the extent of Rs. 52.17 crores. Assistance actually disbursed upto the end of the year 1973 aggregated Rs. 373.81 crores constituting about 85% of the total sanction. Loan sanctioned varied from year to year. The rate of disbursement also varied from year to year, which was very slow at the begining, but rose sharply afterwards. The Corporation assisted many industries such as textile, sugar, chemicals, paper and paper products, fertilisers, cement, jute, iron and steel, mining, and non ferrous metals. The following table illustrates the distribution of industry-wise financial assistance by the Corporation.

Table No.9 (V)

INDUSTRY-WISE DISTRIBUTION OF NET FINANCIAL ASSISTANCE AS ON 30TH JUNE, 1973

(Rs. crores)

Industry	No. of project	Assistance sanctioned	% of the total assistance sanctioned
1	2	3	4
1. Sugar	108	99.73	22.7

1	2	3	4
2. Chemicals	79	89.44	20.3
3. Textiles (Cotton & Jute)	111	52.67	12.0
4. Non-ferrous	12	33.99	7.3
5. Paper and paper product	30	28.57	6.5
6. Iron and steel	41	25.63	5.8
7. Machinery except electrical machinery	50	23.98	55.4
8. Cement	25	20.40	4.6
9. Transport equipment	30	15.16	3.4
10. Rubber products	12	14.77	3.4
11. Electrical machinery	34	12.02	2.7
12. Metal products	26	8.21	1.9
13. Hotels	9	4.04	0.9
14. Others	54	22.26	5.1
	621	439.82	100.0

Source: IFC'S 25th Annual Report.

The traditional industries such as sugar (22.7%), textile (12.0%), etc., received a major proportion of the Corporation's a Assistance. The non-traditional industries such as paper and paper products (6.5%), machinary e (5.4%), metal products (1.9%) received secondary preference from the Corporation.

The Corporation's financial assistance spread to many states including backward states. is given in The following table gives state-wise distribution of the financial assistance by the Corporation.

<u>Table No.10(V)</u>

STATE-WISE DISTRIBUTION OF NET ASSISTANCE SANCTIONED BY IFCI (1948-73)

(Rs.crores)

State	No. of Projects	Total assistance sanctioned	% of the Total
1	2	3	4
Andhra Pradesh	37	28.90	6.6
Assam	7	7.52	1.7
Gujarat	47	31.34	7.1
Bihar	27	22.57	5.1
Haryana	32	13.20	3.0
Kerala	19	14.96	3.4
Madhya Pradesh	16	10.25	2.3

1	2	3	4
Maharashtra	137	99.37	22.6
Meghalaya	1	0.95	0.2
Mysore (Karnataka)	48	29.50	6.7
Nagaland	1	0.5[illegible]	0.1
Orissa	16	13.05	3.0
Punjab	14	7.82	1.8
Rajasthan	14	17.29	3.9
Tamil Nadu	67	57.15	13.0
Uttar Pradesh	53	37.83	8.6
West Bengal	77	40.05	9.1
Delhi	3	3.61	0.8
Andaman and Nicobar Islands	1	0.11	-
Pondichery	1	0.60	0.2
Goa	3	3.25	0.8
	621	439.82	100.0

Source:- IFCI's Annual Reports.

A study of above statement reveals that Maharashtra is getting most favoured treatment (22.6%) from the Corporation followed by Tamil Nadu (13%) and West Bengal (9.1%).

A substantial part of assistance is in the form of loans. The loan form of assistance by the Corporation constitutes nearly 80% and the remaining portion of assistance is in the form of guarantees and underwriting and subscription. The later constitutes only a meagre portion of the Corporation's assistance.

Table No. 11 (V)

COMPONENTS OF ASSISTANCE BY IFCI (1948-73)

(Rs.Crores)

Item	Amount
Guarantees	52.17
Loans	350.74
Underwriting and Direct subscription	36.91
	439.82

Source: IFC's Annual Reports

During the year 1972-73, the Corporation sanctioned a total financial assistance of Rs. 46.15 crores to 90 projects compared to assistance of Rs. 39.16 crores for 68 industrial projects during the previous year. The projects assisted covered a wide range of industries including like alloy steel, tractors, cement, and aluminium. Other industries for which assistance was approved were sugar, synthetic, fibres, iron and steel, electrical and other machinery, cotton textile, metal products, chemical and chemical products, etc. On the 90 projects which were sanctioned assistance 30 projects were to be located in districts notified by the Central Government as less developed and of these 7 projects were to be in the co-operative sector. Assistance sanctioned for the 30 projects aggregated Rs. 20.36 crores, accounting for about 44.2 per cent of the total sanctions during 1972-73.

Of the total assistance sanctioned (i.e. Rs.439.82 crores) to 621 industrial projects, new projects get more than half of the amount whereas the remaining amount was sanctioned for expansion, modernisation and diversification of existing industries. Moreover the Corporation's assistance has helped to mobilise financial resources of the order of about 2,000 crores for the completion of the projects for which the financial assistance is sanctioned.

An industry-wise distribution of financial assistance approved by the Corporation reveals that till recently, the share of consumer goods industries, such as sugar and textile, accounted for more than 36% of the total assistance. But the trend is continuously changing and new basic and capital industries such as fertilisers, cement, engineering goods, electricity, transport equipment, iron and steel, etc., account for more than 50% of the assistance.

A State-wise distribution of the financial assistance sanctioned by the Corporation shows that nearly 45% of the assistance was sanctioned to industrial units in the state of Maharashtra (22.[illegible]%), Tamil Nadu (1.0%) and West Bengal (9.1%). This shows that Corporation did not take any significant step to correct the regional imbalances in industrial investment. Here, one has to remember that financial institutions do not by themselves determine the location of the industries. Most of the assisted industries were located in the various states on the basis of the licensing decisions taken in New Delhi, which, in turn, depend on plan programmes. Moreover, the availibility of infra-structure and many other facilities are also responsible for the location of the industries. So the remedy lies in extending such facilities to other less developed states rather than blaming the financial institutions. Still, the Corporation tries its level best to encourage industries in backward states. Up to 30th June 1973, of the total assistance of Rs. 439.82 crores sanctioned for 621 industrial projects, roughly about 32% i.e., 141.61 crores spread over 174 industrial units, was accounted for by Andhra Pradesh, Assam, Bihar, Madhya Pradesh, Meghalaya, Orrissa, Rajasthan, Uttar Pradesh and Goa, which have been classified as less developed states. IFCI offers many concessional credits to the industries located in the backward areas such as lower rate of interest, longer, period of commencement of repaying of loans, a considerable smaller margin security, granting loans for longer priod, etc.

The Corporation is even prepared to accept a lower contribution from the promoter of the project than its normal requirement. A 50% reduction is also being offered on the Corporation's normal charges in respect of underwriting commission, commitment charge, non-refundable examination fee for processing the application,etc.

Financing of industrial co-opratives is an important feature of the Corporation's operations. Up to 30th June 1973, Financial assistance to the extent of Rs.105.49 crores had been sanctioned to 115 co-oprative and this constituted about 35% of the total rupee loan assistance of Rs. 300.87 crores. A major portion of the co-opratives assistance was to sugar industry. Sugar being a labour intensive industry has been responsible for providing substantial rural empoyment.IFCI lists top in providing assistance to cooperative sector.

The Corporation's activity in the field of underwriting is not much impresive. The assistance by the Corporation in the form of underwriting and direct subscription inthe end of June 1973 is only Rs. 36.91 crores and constitutes only 9.5 per cent In the earlier years, it was not able to underwrite, because of the unfavourable conditions existing in the capital market. But now there seems to be no justification for this poor performance and the corporation should try to develop in that field also,

Another field of activity was by the Corporation in 1957,-58 i.e., guranteeing of deferred payments and foreign loans in respect of imported capital goods. The assistance sanctioned by the Corporation in the form of guarantees up to the end of June 1973 totalled Rs. 52.17 crores.

The Corporation('s major failure is in the utilization of currency sub-loans. Being a new entrant into this field, the Corporation was somewhat slow in its operations.

Another new activity that was taken by the Corporation in the recent years is, granting assistance to undertakings in the public sector. In pursuance of the Central Government Policy the Corporation extended financial assistance to the public sector concerns to the tune of Rs. 9.77 crores. The project included were: a Kerala Government undertaking engaged in the manufacture of paper insulated telecommunication cables and a Mysore Government concern making switch gears and boards, transformers, and electric motors. The Corporation is most enthusiastic in financing public sector concerns, but most of the undertakings inthe public sector are being organised as private limited companies, and, therefore, not eligible for the financial assistance from the Corporation. But with the recent amendment to the Industrial Financial Corporation Act, the Corporation has been authorised to finance private limited companies also. With this we can except that the Corporation will vigorise public sector also.

The Corporation, in pursuance of Government Policy, recently decided to convert a part of the loans given to the assisted concerns into equity capital at their option. The philosophy behind this direction is that these institution were responsible for their growth and so they have a legitimate right to share the prosperity of the concern. Despite hesitation in certain quarters, the philosophy governing conversion rights has already gained acceptance. The guide lines that were recently issued by the Central Government are: (1) conversion rights will not apply to past loans except where it becomes necessary to convert a part of them into share capital as a measures of relief to the assisted concern; (ii) such a right will also not be exercised in case of sub-loans in foreign currencies ,(iii) the right of conversion will, however, apply to rupee assistance from the institution to industrial concern to enable the latter to purchaseforeign exchange from any other source abroad; (iv) the term of conversion of loans/debentures into equity capital such as the quantum of loans to be converted, the issues price of the share, the stage at which the conversion option might be exercised, the period during which the option would remain open the period of notice if any to be given, etc., will be negotiated ineach case and incorporated in the relative loan agreement. In the case of existing companies with reserves created out of the past profits, in fixing the issues price of the share, consideration will be given to factors, such as the market value ofthe share, the break up value of the share, dividents record, current and projected profitibility,etc. Out of the 21 concerns for which the condition of optional conversion of loans into equity had been stipulated, the term and conditions of the conversion had been finalised in16 cases

The Corporation has been the pioneer in the country and in that capacity had to face difficulties inthe formative period. In the begining, the progress of the Corporation was inevitably slow. The record of lending operations did not suggest anything spectacular on its part particularly when compared with Industrial Development Bank of India. The assistance it has extended is by no means impressive compared to the need and order of the investment. But keeping in mind that the Corporation is essentially a marginal lender, and, therefore, the work it has been done on the fringe of an otherwise barren capital market is commendable. The Corporation's activities have gathered momentum in recent years particularly after it became a subsidiary of I.D.B.I. It has been suggested that the Corporation should follow a conservative policy. But the Corporation is a business proposition and has to take due care in sanctioning loans. It has to combine caution with venturesomeness. Sometimes, shortage of funds is also responsible for the restricted activities of the Corporation. It was also poited out that the Corporation took a long time in granting loans and longer still in disbursing it. Part of this difficulty was because of the failure of applications to supply necessary detailed. As such the Corporation should envolve a common application form and standardise the legal procedures so that the cumbersome and time-consuming procedures can be minimised. Another criticism about the rate of interest charged by the Corporation seems to be untenable now in the view of prevailing conditions in the money market. Since the bank rate is 6% the Corporation should charge atleast 9%, otherwise it can not earn a reasonable margin for its members and for building up reserves.

No doubt in the intial stages there might have been mistakes on the part of the Corporation. But after it became the subsidiary of IDBI, changes have been made in the constitution, structure and organisation of the Corporation such as: abolition of audit by the comptroller and Auditor-Central of India, (ii) raising the limit of loan assistance from one crore to two crores, and (iii) provision to borrow from IDBI to make it more effective.

The achievement of Corporation is modest inrecent years. The Corporation has taken many steps to improve the efficiency and to enlarge its activities. With a view to redering more effective service to its clients, as also to have first hand knowledge of the industrial enviroment and for popularising the activities of the Corporation steps have been taken recently to constitute local advisory committee at the places where the Corporation has already established its offices. Besides one or two directors of the Corporation, their membership comprises representatives of the financial institutions at state level, imortant chambers of commerce and industry, nationalised banks functioning inthe area jurisdiction of local advisory committe, the concern state Governments and prominent industrialists. The Corporation is taking steps for opening additional offices in viwe of the increase in the number of projects financed by it and exercising more effective supervision and follow-up of its existing and future investment as also for rendering financial assistance particularly to new enterpreneurs. The Corporation has endeavoured to play its role in the field of industrial finance collaboration with other financial institution like IDBI, ICICI, SFCs, UTI and Commericla Banks. This consortium approach is particularly important in financing of large projects of high national importance requiring huge capital outlay. It also paves the way for the exchange of the views between the member institutions. The joint financing of this kind may be a time-consuming process, but it is neither desirable nor possible for a single institution to meet the requirements of a large project substantially. The Corporation is taking steps to improve the managerial talent in the country. Success of modern industry depends to a large extent on successful management. The experience of IFCI shows that lack of sound management has been frequently responsible for the failure of many a project. Recognising the importance of professional management for success of an industrial venture, IFCI has recently sponsored a management development institute for the training of its clients

Financial assistance sanctioned for projects in the co-oprative sector amounted to Rs. 18.07 crores. This assistance was sanctioned to 15 sugar and 2 textile co-opratives and formed 39% of the total amount sanctioned. During the year 1972-73 three public sector undertakings were sanctioned assistance by the Corporation. Of these, two are in the sugar industry and one is a copper mining project. The net profits of the Corporation in the year 1972-73 were Rs. 90 crores as compared to Rs. 2.19 crores in the previous year. Another highlight in the year was further credit for DM 8.00 million from the Kreditanstalt of West Germany and an allocation of the U.K. credit to the extent of 1.30 million pounds to the Corporation.

The Working of the Corporation has been a matter of big debate inside and out side the Parliament. In May 1963, the Estimate Committee of the Lok Sabha criticised the Corporation that it had materially diviated from the intructions issued to it at its inception, and as such not lived up to expectations. The Dutt Committee observed that the operations of the Corporation along with the other financial corporations led to the concentration of economic power. The 49th report of the Committee of Public Undertakings also took a critical view about the working of the Corporation. Since the initial difficulties were overcome by the Corporation, we can expect that the Corporation will render greater assistance to Indian industries in the coming years.

INDUSTRIAL CREDIT AND INVESTMENT CORPORATION:

The Industrial Credit and Investment Corporation was sponsored by a mission from the World Bank for the purpose of developing small and medium industries in the private sector. It was registered in 1955 with the issued capital being subscribed by Indian Banks, Insurance Companies and Corporations etc. of India and abroad. The aim of the corporation is to estimate the promotion of new industries, to asist expansion and modernisation of existing industries and to further technical and managerial aid so as to increase production in the country.

The setting up of ICICI marked the beginning of the era of institutional underwriting of issues of capital in the country. It has played an outstanding role in developing underwriting facilities. It is also an important source of foreign finance; the world bank has given several lines of credit to ICICI which has also received loans from other institutions such as Reconstruction Loan Corporation (ICFW) of West Germany. The corporation has so far assisted industries manufacturing paper, chemicals and pharmaceuticals, electrical equipments, textiles, sugar, metal ore, lime and cement works, glass manufactures etc. The corporation is particularly interested in the development of new industries in the backward areas. The total financial assistance sanctioned by the corporation since its inception in 1955 upto 1974 amounted to Rs. 400 crores to over 700 companies. This assistance comparised of foreign currency loans rupee loans, guranteesand subscription of shares and debentures. Industry-wise distribution of financial assistance in recent years is shown in table No. 12(V) below.

Table No.12(V)

Net Amount Sanctioned in Lakhs of Rupees.

Industry	Year 1975	Year 1974
1	2	3
Automobiles and Cycles	2012	2968
Cement		1386
Chemical and petro chemicals	11802	8838
Electric equipment	4341	3462
Electricity, gas and steam	1297	1217
Fertilisers and pesticides	1976	1775
Food products	617	491
Glass, pottery	2786	2219
Machinery Manufactures	7236	3054
Metal and Metal products	-	9043
Printing and publishing	264	181
Pulp and paper	3726	2824
Rubber products	3340	2540
Shipping	2451	1908

1	2	3
Sugar	1283	1038
Textiles	5311	4238
Transport equipment	3871	-
Wood, cork and hardboard	363	230
Miscellaneous	8350	1438
Total	67418	50810

Source: Annual reports of the Corporation for 1974 and 1975.

The total net assistance sanctioned during 18 years since the inception of the Corporation in 1955 up to the end of 1972 amounted to Rs. 386 crores to 717 companies, of which 253 were new undertakings. Of these total assistance, Rs. 225 crores were foreign currency loans to 584 companies, Rs. 86 crores were in the form of underwriting to 177 companies and Rs. 14 crores were given by way of direct subscription to 58 companies. The table No.13(V) below summarised the loans sanctioned by ICICI upto the year 1972.

Table No. 13(V)

Loans Sanctioned by ICICI up to December 31, 1972.

	No. of enterprises	Amount sanctioned
1	2	3
Loans and Gurantees		
Rupees	185	86

1	2	3
Foreign currencies	584	225
Underwriting	177	61
Direct subscription to shares and debentures	58	14
Total	1004	384

Note:- Where a company is granted more than one category of assistance, it is accounted for more than once in the table.

Source:- ICICI Bulletin, 1972.

Since its inception, total disbursement amounted to Rs. 267 crores out of which Rs. 166 crores under foreign currency loans, Rs. 59 crores under rupee loans gurantees.

Industry-wise distri-bution of the financial assistance reveals that chemicals and petro-chemical industry accounted for the largest share (22.3 per cent) of the total net amount of Rs. 333.75 crores sanctioned by the Corporation since its inception. Basic metal products came next with 18.4 per cent. Machinery manufacturing (other than electrical) industry had a share of only 9.1 per cent. These three industries together with electrical equipment (7.7 per cent), textile (6.6. per cent) paper and paper products (5.4 per cent) and cement (4.0 per cent) shared more than three-fourth of the total amount sanctioned by the ICICI.

The state-wise distribution of the financial assistance sanctioned by the ICICI since its inception (see table 15(V)) reveals that 34.7 per cent of net assistance went to Maharashtra and 12.7 per cent to Gujrat. Further, the highest share also went to the industrilly advanced states of Tamil Nadu, 10.9 per cent and West Bengal, 7.8 per cent. Thus, these states taken together accounted for 66.1 per cent of the total assistance.

Table No. 14(V)

INDUSTRY-WISE DISTRIBUTION OF ASSISTANCE BY ICICI SINCE INCEPTION UP TO 31st DECEMBER,1971.

Industry	Amount (Crores of Rs.)	% to total
Food manufacturing except beverages	8.14	2.5
Textile including Jute	21.96	6.6
Paper and paper products	18.12	5.4
Basic industrial chemical other than fertilisers	74.28	22.3
Other chemicals and chemical products	-	-
Fertilisers	-	-
Man-made fibre	-	-
Cement	13.44	4.0
Basic metal industries	61.38	18.4
Manufacture of machinery except electricals	30.30	9.1
Manufacture of electrical machinery appratus	25.83	7.7
Services	-	-
Others	80.30	24.0
	330.75	100.0

Source: The Economic Times, Jan 17,1973.

Table No.15(V)

STATE-WISE DISTRIBUTION OF TOTAL ASSISTANCE OF ICICI SINCE/UP TO THE END OF DECEMBER,1971.
INCEPTION

Name of the State	Amount (crores of Rs)	% of total
Andhra Pradesh	13.25	4.0
Assam	2.95	0.9
Bihar	24.30	7.3
Gujrat	42.33	12.7
Haryana	9.14	2.7
Himachal Pradesh	-	-
Jammu and Kashmir	-	-
Kerala	6.33	1.9
Maharashtra	115.91	34.7
Madhya Pradesh	5.64	1.7
Meghalaya	-	-
Mysore	17.17	5.1
Nagaland	-	-
Orrissa	9.46	2.8
Punjab	0.27	0.1
Rajasthan	5.61	1.7
Tamil Nadu	36.38	10.9
Uttar Pradesh	14.68	4.4
Union Territories	4.43	1.3.
Total	333.75	100.0

Source: The Economic Times, Jan. 17,1973

APPRAISAL OF PERFORMANCE

ICICI has made a significant mark on industrial finance in the country. In helping the promotion and expansion of the industries in the private sector, the Corporation has done a good job. Having been set up at very important and crucial stage in the industrial development of the country, the Corporation has been successful in partly allaying the fear of shortage of capital for the private enterprise in the country. A favourable opinion will emerge when we assess the Corporation's working since its inception.

Most of the industries it has helped are newly developing ones which are vital to the future industrialisation of the country. The Corporation largely assisted non-traditional industries rather than traditional industries. Non-traditional industries which received Corporation's assistance include chemicals and petro-chemicals (22.3 per cent), electrical equipment (7.7 per cent), machinery manufacture (9.1 per cent) and basic metal products (18.4 per cent). Nearly 60 per cent of the total assistance was sanctioned to the non-traditional industries, particularly metal based and chemical industries.

Thus the Corporation is contributing its mite in the fulfilment of planned objectives. The initiative taken by the Corporation in helping industries, particularly new ones is commendable.

With regard to loan operations, it is interesting to note that rupees loans have not recorded much progress, but loans in foreign currencies have continued to expand. This is due to the existance of several institution in the country which specialise in provision of rupee finance, while Corporation is the only institution which specialise in providing currency loans. More than 60 per cent of the Corporation's Financial assistance is in the formof foreign currency loans. This is because of the foreign exchange resources at the Corporation's disposal and still larger foreign connections. Its association with World Bank, International Monetary Fund, Foreign commercial banks, and investment banks has enabled it to get more funds from abroad. Recently the Union Government has given its approval to the Corporation to raise about 15 million Euro-dollars to augment its foreign currency funds and the corporation has become the first institution in this country to raise the capital in the foreign money market. No doubt the Corporation never provided all the financial assistance required by a company and its assistance is only one element in the total financing of a project,but it is an essential component in companies financing arranged for a project. In its absence the non-availlibility of foreign currencies would have held up many a scheme of promotion or expansion of industries.

The Corporation tried to fulfil the object of creating healthy capital market inIndia. The underwriting activity of the Corporation is satisfactory when we take into consideration the situation inthe Indian capital market. It has tried to create interest capital market in India. More than 1/6th its assistance has been devoted for underwriting activities. It has to go on intensifying its efforts in this direction.

The ratio of actual disbursement to total sanctions was very low in the initial years, but is increasing steadily afterwards. At present the ratio stands at about 68 per cent, which indicates the necessity of increasing the disbursements. Besides financing, the Corporation has developed its attention to ancillary services directed towards working out plans for individual projects and advise the entrepreneurs coming from various fields. Moreover, to encourage and promote private foreign capital the Corporation established an Investment Centre

The Corporation has worked in close cooperation with other financial institutions and joined hands in underwriting operation and in the sanction of loan. Never the less the criticism levelled against the Corporation that it favoured well-developed states rather than backward states is proved to be true from the fact that nearly 63 per cent of the total assistance sanctioned by the Corporation went to the four developed states (Gujrat, Maharashtra, West Bengal and Tamil Nadu).

STATE FINANCIAL CORPORATIONS:

The industrial financing in the state is the prerogative of the State Financial Corporations. The accent on industrialisation during the Thrid Plan brought to the fore the lacuna in the institutional set up concerned with the provision of industrial finance at the state level and led to the establishment of State Industrial Development Corporationsin various states. Underwriting constitutes an integral part of the activities of these corporations. The main functions of the corporations are the promotion, improvements and development of industries on the state level.

The state financial corporations are, in fact, the maniature editions of IFCI at the centre. The first such corporation was set up in 1973 by the punjab government. The number to 6 by the end of 1953-54; 10 at the end of 1954-55; 13 at the end of 1960-61 and 18 at present.

Financial assistance by state financial corporations is rendered primarily for block capital requirement of industrial concerns and only in exceptional cases for working capital needs. The loans and advances sanctioned by state corporations are increasing steadily since their inception. The total effective loans sanctioned by all these corporations, since their inception amounted to Rs.37,115 lakhs. The total loans disbursed by the corporations since their inception to the end of 1972-73 amounted to Rs. 27,634 lakhs which constituted roughly 75 per cent of the sanctions. The following table clearly illustrates the above trends.

Table No. 16 (V)

SELECTED DATA OF 18 STATE FINANCIAL CORPORATIONS

(Rs. in lakhs)

State	Year of establishment	Paid up capital	Effective sanctions as at the end of 1973	Amount disbursed at the end of 1973	Percentage of amount disbursed to amount sanctioned
1	2	3	4	5	6
1. Andhra Pradesh	1956	150	2535	1932	76.2

1	2	3	4	5	6
2. Assam	1954	100	788	726	92.1
3. Bihar	1955	100	1345	920	67.9
4. Delhi	1967	100	990	734	74.1
5. Gujrat	1960	300	4637	2952	63.7
6. Haryana	1967	100	1995	1460	73.2
7. Jammu and Kashmir	1960	77	685	604	88.2
8. Kerala	1953	100	1948	1272	65.3
9. Madhya Pradesh	1955	100	1210	1035	85.0
10. Maharashtra	1962	265	5884	4746	77.7
11. Mysore	1969	150	2227	1672	75.1
12. Orissa	1956	100	743	572	76.2
13. Punjab	1953	75	1589	1072	67.5
14. Rajasthan	1955	100	1614	1146	71.0
15. Tamil Nadu	1949	300	3802	3467	91.2
16. Uttar Pradesh	1955	225	3238	1836	56.7
17. West Bengal	1954	150	1580	1284	81.3
18. Himachal Pradesh	1967	61	288	204	70.8
Total	-	2553	37115	27634	74.4

Source: Economic Times, 10th October, 1973.

PROGRESS OF THE CORPORATIONS

The loans and advances sanctioned by the corporations are increasing steadly since their inception. The total effective sanctions of 13 SFCs showed a rise of 23.3 per cent during 1972-73 and their actual disbursement increased by 18.7 per cent. The total effective loans sanctioned by all these corporations since their inception amounted to Rs. 37,115 lakhs. The total loans disbursed by the corporations since their inception to the end of 1972-73 amounted to Rs. 27,634 lakhs which constituted 74.4 per cent of the total sanctions. Assam, Jammu and Kashmir, Madhya Pradesh and Tamil Nadu fared well in the disbursment of the loans whereas Gujrat and Kerala were at the other end.

The activities of the corporations in different states varied widely because of the differences in lengths of the corporations, levels of industrial growth in the respective states and their need, and efficiency of administration. The corporation's financial assistance convered a wide range of industries. Textile and food products received the largest share folowed by chemicals and fertilisers, machinery manufacture, basic metal industries and manufacture of metal products. In the case of Maharashtra and Punjab corporations, a good part of the loans sanctioned was for engineering and textile industries. Textile industry's share was predominant in states like Maharashtra Andhra Pradesh, Gujrat, Kerala, Madhya Pradesh, Tamil Nadu, Mysore Punjab and Rajasthan. In the case of Assam, food product manufacturing industry's share constitutes nearly 44%. Next to textile is the food products industry which received greater assistance in almost all states.

In meeting the medium-term needs of medium-sized industries, SFCs played a very important role. A-part of granting of assistance, some corporations entered into new field of operations such as underwriting, deferred payments, etc., but not to any appreciable extent. The progress of the corporations particularly in the sphere of direct subscription to shares and debentures is very insignificant.

A major portion of the corporation's assistance was absorbed by medium rather than small-scale industries. Statistics reveals that out of 1,92,000 registered small-scale units throughout the country, only 4,000 units have received assistance from SFCs. The small-scale industries can not play their role expected of them in our plans unless assistance is liberally provided. The following table indicates the amount-wise assistance sanctioned by SFCs.

Table No. 17(V)

AMOUNT-WISE LOANS SANCTIONED BY SFCs (Percentage to total)

Size	Up to the end of 1973
Not exceeding Rs. 25,000	0.9
Rs. 25,000 to Rs. 50,000	3.1
Rs. 50,000 to Rs. one lakh	6.8
Rs. 1,00,000 to Rs. two lakhs	10.5
Rs. 2,00,000 to Rs. 5 lakhs	22.1
Rs. 5,00,000 to Rs. 10 lakhs	29.7
Rs. 10,00,000 to Rs. 20 lakhs	26.9
	100.0

Source: Economic Times, 10th October, 1973.

The above figures indicate that large and medium-scale units get the major share of the money pumped by the corporations and roughly they claim about 3/4 of the total sanction.

This is mainly because loans to small concerns are felt to be more risky. The small concerns neither follow accepted auditing and accounting methods nor processes sufficient amount of fixed assets which can be offered as security. The corporations were justified to reject applications on the above grounds, but they should overcome these difficulties by adopting suitable methods and making the loan applications creditworthy.

It is difficult to make a general review of the working of the SFCs because the performance varied from corporation to corporation. On the whole the general impression is that they have not fared well. Most of the SFCs provided mainly loan capital, very little working capital and almost no equity capital. The corporation's participation in underwriting and guaranteeing operations also is very impressive. But the corporations should improve their activities in the field of guarantee and equity participation. These are the fields which have greater promise. Moreover, the review revealed that the cost of borrowing is very high. The corporations charge a rate of eight to nine per cent per annum. The borrowing concerns have also to incure other expenses like ligitation charges, stamp duty, etc., which come to about three per cent of the loan availed of. Thus, the total cost of borrowing varies between 11 12 per cent which is perhaps too prohibitive for small concerns. It is futher observed that undue delay occur in sanctioning loans to industrial concerns.

The overall profitibility of the corporations declined from 26.1% in 1971-72 to 25.1% in 1972-73. However, the pre-tax profits of 18 corporations increased from 3.44.crores to 3.78 crores.

There is no single criterion by which the relative seffi ciencies of the various SFCs can be judged. One criterion that can be considered is the operating expenses for application received. On this criterion it is found that Jammu and Kashmir, Himachal Pradesh, Gujrat and Maharashtra have done well. In other cases the expenses appear to be very high. Tamil Nadu, West Bengal, Kerala, Haryana, Madhya Pradesh and Mysore have incurred heavy expenses when considered in relation to the number of applications received by them, Two other criteria that can be consid red are expenses in relation to disbursement of loans and expenses to loans sanctioned. Even on the basis of these criteria, the performance of SFCs of Madras. Assam, West Bengal and Madhya Pradesh are far from satisfactory.

THE LIFE INSURANCE CORPORATION OF INDIA

The establishment of the Life Insurance Corporation of monolithic companies in1956 represents another landmark in the field of institutional financing inIndia. Amongst the Government undertakings, the Life Insurance Corporation is the biggest investor in private industry. In 1956, the corporation allocated 20.4 per cent of its funds for buying securities in limited companies, in 1966,19.0 per cent; and in 1969, 16.5 per cent. However, in absolute term the investments have almost trebled from Rs. 713 million to Rs. 2,104 million making an increase of 19.5 per cent.[1]

INVESTMENT OF FUNDS:

Despite the emergence of several new institution in recent years, the LIC dominates the corporate security market holding about 63 per cent of the aggregate value of shares and debentures held by the institutional investors. Table No. 18(V) indicates the extent of the total assets and the value of the shares held by the investment institutionsl at the end of their

1: Reserve Bank of India Bulletin, Bombay, p.1004.

respective financial years.

Table No.18(V)

TOTAL ASSETS OF INVESTMENT INSTITUTIONS AND THEIR CORPORATE HOLDING

Year ending		Institution	Total assets	Value of shares and debentures held.
March	1969	LIC	1,555	210
March	1969	IFC	208	17
June	1969	IDBI	189	10
December	1969	ICICI	126	28
March	1969	SFCs	125	10
June	1969	UTI	67	60

Source: Lok Udyog, November 1970, p.939.

The total funds invested by the Corporation inprivate sector industries increased from Rs. 69.14 crores in 1957 to 291.34 crores by the end of March 1973. Though the proportion of he investment has not increased hearily. But for the huge investment of LIC, the growth of he private sector would have been inhibited in this country. As at the end of March 1969, out of 6,109 public limited companies, only 1,529 had their shares and debentures quoted on the eight recognised stock exchange in India. Out of 1,529, LIC had shares in 853 companies. Investment pattern of LIC funds indicates that investment in Government securities, approved securities and loans to public bodies, continue to be the most important assets of LIC, constituting as much as 71.6 per cent of the total. This practice does not find much favour with insurance companies in foreign countries. Such investment constitute only 12.5 per cent of the assets in the USA, 19.0 per cent in the U.K. and 26.5 per cent in Canada. The LIC's strong preference for Government securities can be explained in terms of several factors. Apart from statutory requirements, the insurance companies are very much concerned with safety of thier principal and stability of investment income overtime. The government securities provide an ideal outlet for their funds. No doubt the market value of government securities also fluctuates in accordance with the variation in interest rates, but the loss is very insignificant, since the Corporation bought them to hold till maturity date. A study of trends in the composition of Government securities will indicate that the share of Central Government securities has declined from 49 per cent in 1956 to 29.0 per cent in 1973. At the same time, the State Government's securities increased from 9.7 per cent in 1956 to 12.4 per cent in 1973. The reason for the LIC's preference to State Government securities stems from the fact that they are medium-term securities, and the yield on them is also slightly higher.

The investment pattern of LIC funds in private corporate sector is not much progressive and it remains around 15 per cent. In fact it declined from 20.4 per cent in 1956 to 12.4 per cent in 1973. But such investment constitute 30.1 per cent of the total assets in the U.S.A., 40.9 per cent in the U.K. and 21.8 per cent in Canada. There have been criticisms that LIC has not assisted private sector sufficiently and the LIC was responsible for building up monopolies. At present LIC is estimated to be holding more than 30 per cent of the equity shares of two companies, between 25 per cent and 30 per cent of the equity capital of 25 companies; and between 10 per cent and 25 per cent of the equity capital of 235 companies. The recent estimates of the LIC'S shareholding were made by the Industrial Licensing Policy Inquiry Committee. The Committee found that while the holding of equity shares in1956 was 3.5.percent, the figures had gone up to 10.1 per cent in1967. Similarly, in the case of preference capital, medium holding which was 17.7 per cent in 1956 increased to 27.1 per cent in1961.The significance of these summary figures can be realised by looking at the frequency distribution of companies in which the LIC held shares in1956 and 1967.

Table No. 19(V)

Frequency Distribution of Companies in which LIC held shares.

Share of paid up capital held by LIC	No. of companies in which LIC held equity capital.		No. of companies in which LIC held preference capital	
	1956	1967	1965	1967
Less than 5 per cent	175	103	33	22
6 to 10 per cent	43	105	25	17
11 to 15 per cent	16	86	24	27
16 to 20 per cent	9	65	14	27
21 to 30 per cent	3	57	47	65
Over 30 per cent	3	5	33	119
	249	419	176	277

Source: Government of India, ILPIC report, Vol.iv, p.111.

An analysis of the above table shows the upward shift in holding of the LIC, both with respect to equity and preference capital. It will be noted that the number of companies in which LIC held less than 10 per cent of the preference share capital declined from 58 in 1956 to 39 in 1967. On the other hand the number of companies in which holding of preference capital was over 20 per cent increased considerably from 80 in1956 to 148 in 1967. Similarly, in the case of equity capital the number of companies in which LIC holding was less than five per cent declined from 175 to 103 between the two years and the number of companies with more than 20 per cent holding increased significantly from six in 156 to 62 in 1967.

The provision that permits the LIC to hold up to 30 percent of the equity share capital of the company has been much criticised by a section of the public as a means of 'back order door nationalisation'. The strength in the argument is very weak because at present there is no direct control, either of the Government or of the RBI over the operations of the Corporation. Moreover, LIC should hold more and more equity capital for the effective functioning of the private sector and in the larger public interest. The reason why the LIC must play a more effective role in directing the affairs of its investee companies is the fact that allarge majority of shareholders are uninformed., unware uninterested and unorganised. As such, the affairs of the company are more likely to be dominated by a minority group in its own interests, Being a major shareholder, LIC can safeguard the rights of genuine shareholders and uphold the spirit of public interest. For instance, LIC objected to the appintment of a very old per on as a paid chirman of a large company on a very high remuniration. The presence of LIC and its strength has an impact on manay occasions such as election of directors, etc. Recently as a result of LIC's presence it was reported that a person from a well-known industrial house withdrew from the contest for directorship of a particular company. shares of which were allegedly concerned by the latter to get hold of the control of the company. In this context, if the LIC holds a proportionately high percentage share of certain companies in the private sector, it can be accused of being instrumental in helping the process of concentration of economic power or generating monopolistic trends in the economy. On the contrary, as can be seen from the examples cited above, it would be able to raise the voice of the shareholders as a whole against the arbitary decision and ulterior motives of the management, which are against the interest of the shareholders. Simalarly, the argument that the LIC's share in the private sector is steadily increasing holds no good until the Government decides ti discontinue the policy of mixed economy.

APPRAISAL OF PERFORMANCE

In 1972-73 the LIC has set up a ne record completing a new business of Rs. 2075.20 crores under 20.3 lakh policies. The sum assured increased by 26.5 per cent compared to the previous year. Out of new business, nearly 68 per cent of the total number of the policies issued in the year were for sums assured between Rs.1,000 and Rs. 5,000. The fact clearly shows how the Corporation is increasing its efforts in the mobilisation of small savings.

The industry-wise analysis of LIC holdings indicates that engineering goods, iron and steel, cement and aluminium have received as much as 35 per cent of its industrial investment funds. Another 21 percent had gone to chemical, electricity, eletrical goods and minerals oils. Consumer indutries such as paper and paper boards,rubber products, etc., which have given priority for development in the country's plans, have received another nine per cent. Old and traditional industries like cotton and jute textiles, plantation and sugar have received only about 20 per cent of industrial investment funds. Although industry wise investment is fairly even, the region-wise investment shows great disparity. Two States- Maharashtra and West Bengal accounted roughly for more than half of the total funds. A certain degree of concentration in Maharashtra and West Bengal is inevitable. because of the predominant number of joint stock companies established in these two states. A close analysis reveals that the newly established industries have received precendence over the traditional ones, which indicates the progressive outlook that the Corporation has adopted.

The investment policy of the Corporation has generated considerable amount of controversy. Its investment policy has to satisfy both yield and safety considerations of shareholders.

The procedure followed by the LIC is not very good, because Corporation invests on the basis of offers from brokers. The brokers will manipulate the market to suit their decisions. To remove the above defects, in 1960, the Corporation set up an investment research section in the investment department to analyse systematically the balance sheet of all the companies, whose shares were quated on the stock exchange of the country. The investment research centre will provide all the necessary data to the Investment Committee before taking a decision. In case of nwe industrial investments, searching enquires will be made by the research bureau. The bureau is also responsible for the continuous evaluation of the shares and the performance of the joint stock companies.

It is said that LIC's contribution to new ventures is very limited. It is true that life funds should be available for the industrial development, but this objective must be sought to be achieved in a manner consistant with canons of safety. A large degree of risk has to face by the Corporation than is prudent by employing life funds in new industrial ventures. It should be remembered that the funds at the disposal of the Corporation are the hard-earned saving of the common man who constitute the bulk of life insurance policy holders. On the other hand, the LIC can help new industrial enterprises by forming underwriting consortiums with other credit institutions and by purchasing the securities, shares and debentures of financial corporations like ICICI, IDCI and SFCs.

The new yield on the life insuarnce funds was only 6.56 per cent in 1972-73. Moreover, the bonuses by the Corporation have been rather low. Even though the life expentancy in the country has gone up, the LIC is reluctant to lower the premium rates. The chairman agreed that the net yield does not compare favourably with other life insurance organisations in other countries, but he stressed the need to remember responsibilities placed in LIC before coming to such a decision. The private insurers have a right to confine their activities to a particular class of business which is less expensive. But the obligation placed on LIC to spread its activities obviously can not be judged by the same standard. It would be worthwhile evaluating its performance in this direction rather than in terms of yield on life insurance.

There is a feeling that LIC has not played significant role in social development projects like housing, drainage, water supply and other basic amenities of community life. The Corporation might have been slow in the initial years in the discharge of its social responsibilities. But now it has speeded up its activities towards them. For instance, an amount of Rs. 352 crores has been invested in the electrification of the country, Rs. 290 crores in housing development schemes, Rs. 100 crores for agricultural development through land mortgage banks, Rs. 28 crores for small-scale industries through industrial estates. This infra-structure so necessary for the development of th country would never have been possible, but for the assistance of the LIC. Besides, it has invested a huge amount of Rs. 885 crores by way of subscription to Government loans in order to support the planned development of the country.

THE UNIT TRUST OF INDIA

The Unit Trust of India founded in 1964 is the second biggest government agency which directly subscribes to the capital issues of the private companies. It aims at mobilising the small savings of the middle sections of the population by selling its units in order to channel them into productive uses. The over all position of sales and repurchases under the different schame and plans is given in table No.20(V). Despite the continuance of stiff competition from other savings media, there was a marked improvement in the operation of the Trust during the year compared with 1974-75 which was the most difficult year in the history of the Trust. Sales of units at Rs. 28.97 cores were higher by Rs. 11.73 crores than those at Rs. 17.24 cores during the previous year. Repurchases during the year at Rs. 10.97 crores, though still higher than the normal level, were only about a half of the previous years's level of Rs. 20.37 crores. There were thus net sales amounting to Rs. 17.99 crores as against net repurchases to the extent of 3.14 crores during the previous year. Consequently, unit capital outstanding at the end of the year rose to Rs.166.80 crores under 6.36.604 applications from 148.81 crores under 6,00,631 applications at the end of 1974-75. Several factors contributed to this improvement. Firstly, the exculusive income-tax and wealth-tax concession granted by the Government in January 1975 in respect of investment in units considerably improved their attractiveness.

Secondly, the increase in the dividend for unit holders of the Unit Scheme 1964 to 9.60 per cent for 1974-75 from 8.50 percent for 1973-74, though only marginal, restored investor's [illegible]

Table No. 29(V)

SALES AND REPURCHASES OF UNITS

(Amount in lakhs of Rs.)

	1974-75		1975-76	
	No. of Applns	Amount	No. of Applns.	Amount
1	2	3	4	5
A. Sales				
i) Unit scheme 1964:				
(a) Unit scheme proper	34,523	1476.270	26,741	1871.980
(b) Reinvestment Plan	28,500	135.03	28,017	137.36
(c) Children's Gift Plan	1,766	62.78£	1,990£	67.41£
(d) Total (a+b+c)	64,789	1674.08	56,748	2076.75
ii) Unit Scheme 1971: (Unit-linked Insurance Plan)	2,043	49.47**	2,946	73.04**
iii) Unit Scheme 1976	-	-	17,050	746.87
iv) All Schemes	66,832	1723.55	76,744	2896.66
B. Repurchases				
i) Unit Scheme 1964				
(a) Unit Scheme Proper & Reinvestment Plan	62,672	2036.140	40,602	1094.280
(b) Children's Gift Plan	5	0.05	13*	0.85*
(c) Total (a+b+c)	62,677	2036. 19	40,615	1095.13

1	2	3	4	5
C. Outstandings				
i) Unit Scheme 1964.				
(a) Unit scheme proper & Reinvestment Plan	5,82,681	14456.91	5,96,837	15371.85
(b) Children's Gift Plan	11,471	326.06	13,449	392.59
(c) Total (a+b)	5,94,152	14782.97	6,10,286	15764.43#
ii) Unit Scheme 1971	6,479	97.53	9,268	168.29
(Unit-linked Insurance Plan)	-	-	17,050	746.87
iii) Unit Scheme 1976				
iv) All Schemes	6,00631	14880.50	6,36,604	16679.59

Source:- Annual Report of the Unit Trust of India
@ Includes small amount in respect of voluntary plan terminted with effect from July 1,1976,

/includes sales from reinvestment of dividend,

£ Excludes one case of transfer from unit scheme 1964 amounting to Rs. 0.01 lakh.

** Includes sales from reinvestment of dividend and renewal contributions from existing members,

* Excludes one case of transfer to Unit Scheme 1964 amounting to Rs. 0.05 lakh, and

Excludes transfer from voluntary saving plan to Sundry Deposits.

confidencein units as a medium of good investment. Thirdly, the distinct improvement in the economic situation during the year and the relaxtions in dividend restrictions had also a favourable effect on the investment climate. Fourthly, in January 1976, the Trust introduced a new Scheme(unit Scheme 1976) primarily oriented towards capital growth unabled the Trust to attract additional savings to the tune of well over Rs. 7 crores.

The Unit Scheme 1974, the unit scheme 1976 and the Reinvestment Plan are, apart from individuals also open to companies and other corporate bodies, societies registered under the Societies Registration Act, Courts and Government officials and eligible trusts. The Children's Gift Plan and the Unit-Linked Insurance Plan are available to individuals only. As in the past individuals continued to account for the bulk of the sales (Table No. 21(V); during the year; individuals accounted for about 88 per cent of the sales as against about 91 per cent last year. Trusts were allowed to invest in Units with effect from July, 1975sales to trusts during the year amounted to Rs.72.58 lakhs under 109 applications.

Table No. 21 (V)

Sales of Units According to Categories of Investors.

(Amount in lakhs of Rs.)

Category of Investor	Unit scheme 1964 (including RIP & GGP)		Unit scheme 1971		Unit scheme 1976		All schemes	
	No. of Applns	Amount	No. of Applns	Amount	No. of Applns	Amount	No. of Applns	Amount
1. Individual (of which non residents)	56,545	1798.55*	2,946	73.04	17,010	687.66	76501	2559.85
	(786)	(47.64)	(-0)	(-)	(-)	(-)	(876)	(47.64)
2. Trusts	93	59.67	-	-	16	12.91	109	72.58
3. Companies	110	218.55	-	-	24	46.30	134	264.85
4. Others	-	-	-	-	-	-	-	-
Total	56,748	2076.75	2,946	73.04	17,050	746.87	76744	2896.66

* Include negligible figures in respect of voluntary savings Plan terminated with effect from July 1,1974.

Income from units upto Rs.2,000 and investment in units upto Rs.25,000 were granted exclusive exemption from income tax and wealth-tax, respectively. These exemptions were in addition to the existing exemption of Rs.3,000 income tax availble to income from units together with income from certain other specified assets and the exemption of Rs.1.50 lakhs from wealth tax available to investments in units together with investment in certain other specified assets.

Source: Annual Report of the Unit Trust of India.

PROGRESS

The progress of the Unit Trust in the mobilization of savings may be judged by the amount of units sold, as reduced by the amount of units repurchased. The gross sales (in terms of face value of units) since its inception have increased from Rs. 19.14 crores in 1964-65 to Rs. 124.79 crores in 1972-73 (see table No. 22 (V).

Table No. 22 (V)

PROGRESS OF UNIT TRUST OF INDIA

(Rs. in crores)

Year ending June	Units sold		Unit Purchased		Units outstanding	
	No. of applications	Amount	No. of applications	Amount	No. of applications	Amount
1964-65	1,34,124	19.14	3,130	0.41	1,31,594	18.73
1965-66	10,024	2.15	6,997	1.09	1,34,624	19.80
1966-67	41,570	9.24	5,563	1.99	1,69,628	27.05
1967-68	57,159	15.34	7,828	1.22	2,18,959	41.16
1968-69	58,439	17.16	8,217	1.67	2,69,181	56.65
1969-70	74,471	22.83	9,480	2.04	3,34,172	77.45
1970-71	61,540	17.99	12,698	3.19	3,83,014	92.25
1971-72	61,405	15.08	10,049	2.60	4,34,000	104.73
1972-73	82,209	23.04	11,403	2.97	5,05,176	124.79
Total	5,81,541	141.97	76,365	17.18	5,05,176	124.79

Note: 1. Amounts set out in this statement relate to the face value of units, i.e., Rs. 10 per cent.

2. Figures include units sold:-
(a) Reinvestment plan, 1966 (b) Voluntary savings plan 1969, and (c) Children's Gift Plan, 1970

Source:- Record and Statistics, Quarterly Bulletin of Eastern Economist, November, 1973.

The income of the Trust, after deducting the permissible expenses, increased from Rs. 115 lakh in 1965 to Rs. 1,077 lakhs during the period 1973. The dividend distributed among the unit holders also increased from six per cent in 1964-65 to seven per cent in1965-66, and further to 7.2 per cent in1969-70 and eight per cent in1970-71, 8.25 per cent in1971-72 and 8.5 per cent in 1972-73. This upward trend in dividends distribution fulfils one of of the assurance given by the Unit Trust, namely a reasonable return on their investments.

Almost all the investible funds of the UTI have been invested in the privage corporate sector. In investing its funds UTI gives primary consideration to the dividend interest paying capacity of the concern besides their sound financial position and high reputation. As at 30th June 1973, the total investments of UTI amounted to Rs. 142 crores out of which equity shares accounted for 10 per cent, preference shares for 10.5 per cent and debentures for 34 per cent. The industry-wise and security wise investment of the UTI are shown in the table No. 23(V).

Table No. 23 (V)

INVESTMENTS OF THE UNIT TRUST OF INDIA (INDUSTRY-WISE) AS AT 30th JUNE, 1971.

	Ordinary Shares	Preference Shares	Debentures	Total	% of total
1	2	3	4	5	6
Textiles (Cotton, Jute, Rayon and pulp, Woolen, etc.)	330.99	234.78	797.06	1,362.83	14.5[illegible]
Engineering	543.98	191.22	602.80	1,338.00	14.2[illegible]
Electricity generation and power supply	231.18	81.31	829.43	1,141.92	12.2[illegible]
Cement	285.39	50.46	261.68	697.53	7.4[illegible]
Iron and steel (Basic and foundries)	588.22	70.38	25.00	683.60	7.3[illegible]
Transport Equipment	239.21	87.20	327.89	654.30	6.9[illegible]
Chemical and Pharmaceuticals	306.45	100.55	39[illegible]	693.06	6.9[illegible]
Aluminium (Basic and Foundries)	98.15	188.80	316.28	603.23	6.4[illegible]
Banks and Investments	389.86*	0.38*	28.85	419.09	4.4[illegible]
Paper and paper products	125.92	90.15	36.97	253.04	2.7[illegible]
Shipping	158.61	0.46	-	159.23	1.3[illegible]
Rubber and Rubber Manufactures	94.15	15.41	40.02	149.58	1.6[illegible]
Sugar	92.68	34.15	13.16	139.99	1.4[illegible]
Plantations (Tea, Coffee and Rubber)	76.34	12.10	-	88.44	0.9[illegible]
Coal	20.87	14.26	15.16	50.29	0.[illegible]

1	2	3	4	5	6
Glass and Potteries	17.89	1.41	-	19.30	0.21
Miscellaneous	265.78	85.83	597.39	949.00	10.14
	3,965.74	1,307.85	4,088.74	9,302.33	100.00

Source: Record and Statistics, Quarterly Bulletin of Eastern Economist, New Delhi, November 1973.

The object of mobilising the savings of the middle income group poeple has been fairly fulfilled. According to the analysis of the Reserve Bank in 1965, nearly 60 per cent of the total number of the applications from individual were for 60 or smaller number of units, 25 per cent being for the minimum lot of ten unit another 20 per cent of the applications were 60 to 100 units. Thus applications for less than 100 units accounted for 80 per cent of the total applications for purchase of units from individuals. This clearly indicated that the Trust succeeded in bringing the relatively small investors into its fold.

Further, an occupational distribution of unit holder reveals that half the number of applications have been received from'salary and wage earners' group. Equally significant fact is that the group 'students and persons engaged in household work' accounted for a further 16 per cent of the total number of applications received.

There is no doubt that these financial agencies promoted the industrial development and entrepreneurship in the country ingeneral. The stimulation of crediting and investment furnished a certain potential for industrial expansion, but its utilisation depended on a number of other factors. Credits and investments promote the expansion of industry and entrepreneurship only when there is an established market for capital, a class of entrepreneurs and relatively developed infrastructure. That is specially borne out by the fact that the bulk of the transactions of the credit and financial agencies is conducted inthe industrially developed States: Maharashtra, Madras, Gujrat and West Bengal. The necessity of adherence on the part of these institutions to commercial principles also affect the importance of credit and finance as a stimuli for industrial expansion. Only the country's well established industries are, therefore favoured by these institutions while granting loans. The bulk of credits granted by the

National Industrial Development Corporation went to the textile industry; the Industrial Finance Corporation allocated 36.4 per cent of its funds for financing the food and the textile industries and the State Financial Corporations granted almost half of their credits to the traditional industries. Even the IDBI allocated 17.4 per cent and of its over all credits to textile industry.

From the data presented in table No. 24(V) it is evident that during the period 1970-71 the financial institutions disbursed an aggregate amount of Rs. 156 crores as financial assistance including Rs. 24 crores by way of foreign currency loans. This forms roughly 25% of the total fixed capital investment in the private sector during the year 1970-71.

Table No. 24(V)

FINANCIAL ASSISTANCE DISBURSED BY FINANCIAL INSTITUTIONS DURING 1970-71

(In crores of Rupees)

Financial Institutions	Rupees Loans	Foreign Currency Loans	Underwriting and Direct subscription		Total
			Shares	Debentures	
IDBI	51.1	-	4.7	-	55.80
IFCI	13.9	2.6	0.9	-	17.40
ICIC	4.6	21.5	1.8	1.3	29.20
SFC's	3.1	-	0.4	-	33.50
SIDC's	9.5	-	3.0	0.02	12.52
UTI	-	-	1.4	7.0	8.40
LIC	-	-	-	-	-

Source: Journal of Commerce, Aligarh Muslim University, Aligarh

It may be seen that the largest contributor of funds is IDBI followed by ICICI/so far as over all assistance is concerned. The ICICI's pre-eminent role as provider of foreign currency loan is alo brought out by the table. Thus in 1970-71, out of Rs. 24 crores of foreign currency as much as Rs. 21.5 crores was disbursed by ICICI. In the early stages, the role of institutional financing was very limited. But with the abolition of managing agency system of finance in 1970, the normal flow of the funds to the private sector through the capital market has slowed down. As a result, institutional finance has come to occupy a significant place. It provided over 25% of the fixed capital expenditure by joint stock companies in India in the year 1970-71. This reliance on institutional finance has a number of favourable aspects. The institutional agencies that provide finance carry out a well planned appraisal of the projects submitted for financial assistance and are able to suggest improvements in techniques of manufactures, collaboration arrangements etc. They keep a close watch on the progress of the production and working of the companies concerned. They also send teams of technical and financial experts to visit the factory site for inspection on the

The financial institutions also have a right to nominate directors on the boards of directors of the assisted companies. This insures that the companies would be under the constant vigilance of the institution. This would make them more alert, efficient and active in their operations.

Another impact of reliance upon institutional finance is the possibility of converting a part of the institutional loan into equity. There has been a lot of misunderstanding and fear on the part of business community about this policy of the institutions. As a matter of fact, the policy should not cause undue concern since the new arrangement will bring the financial institutions closer to the loaned company.

It must, however, be kept in mind that the entire needs of industry cannot be met through loans from one or more financial institutions. A particular concern should be allowed to obtain finance from these institutions well within the safety margin of the security that is offered. From that it follows that the concern itself must make an effort to raise a fair proportion of its financial requirements. Moreover, the assistance will be for a limited period which may be 10 to 15 years or even less. Therefore, a concern must find finance for itself either out of its profits, or out of issue of shares or debentures to the public.

CONCLUSION:

In conclusion, it may said that evolution of institutional financing of Indian industrial scene is a welcome development. The increasing involvement of financial institutions in the financing of the industries has a number of beneficial aspects. But some reform in the operational efficiency and integrity of these institutional is needed to overcome the defects and deficiencies of industrial finance in India. Delay in granting loans and their disbursement due to faulty preparations of projects and financial estimates should be avoided. Finally, they must conduct their affairs in such a way that the objectives enshrined in the industrial, fiscal and monetry policies of the government may purposefully be attained. My endeavour in the sixth chapter will be to present the summary of the findings and conclusions of this Study.

CHAPTER -VI

CHAPTER-VI

A RESUME

The chapter is a resume of the findings of this thesis. The thesis has been written with the premise that our country is committed to an ordinary change leading to industrial expansion with reduction in inequality of income and a respect for private enterprise. To attain this, the government decided to step in the field of industrialisation through a series of regulations and controls over the private sector enterprises which forms an important ingredient of our mixed economy. In order to discuss the impact of these government regulations and controls of industrial expansion this thesis has been devided into six chapters. In the first chapter of this thesis, the economics of government regulations and controls have been analysed. The relationship between the state and the economy has undergone almost a transformation since the laissez faire days of the pioneer economist, Adam Smith when the state was believed to be concerned only with the problems relating to the maintenance of law and order. There was no state interference in the working of business enterprises. The doctrine of laissez faire or free enterprise was based on the assumption that every individual acting as a rational being tries to get the greatest satisfaction from life for himslef and in the process contributes toward the greatest possible satisfaction to society. Thus, the classical economists fondly believed that the principle of non-interference with the economic and business matters led unerringly to what Betham called " the greatest good of the greatest numbers". The later developments, particularly those which followed in the wake of Industrial Revolution, shook the faith in this rather idealistic doctrine widely. Laissez faire threatened to push society on a road that led to the greatest good of a small number of people in whose hands got concentrated the ownership, control and management of vast industrial empires. The growth of monopolistic concentration, the exploitation of consumers and working classes by industrial lords, the sacrifice of general good for private gain ... all these developments led the economists and the state to revise their ideas about the role of state in relation to economic activity. It began to be realised that the state could no longer allow itself the luxury of overlooking the economic scene marked by grim struggle under uncontrolled and unregulated private sector enterprises. It could no longer be a passive spectator to the unjust domination of the economy by a few who virtually held the society to ransom. The state has, therefore, been assigned a more active role in the economic affairs. It has not merly to act as the guardian of peace and order in the country but has also to serve the broader interests of the community at alrge. The desirability of the state interference in economic affairs is virtually unchallenged, though there may be certain difference of opinion about the degree of control the state should exercise. In totalitarian regimes, the

State has gone to the extreme extent of taking over the complete control of the economic resources. The Communist countries of the World led by the U.S. S.R. have adopted the nationalised pattern of he economy under which the ownership and control of productive channels have been placed in the hands of the State. Economic activity has been completely regimented there in the sense that neither production nor consumption goes according to individual decision by producers and consumers, but are determined by the state. Private enterprise has been totally abolished and the whole economy constitutes the Public Sector. On the other hand, in most of the Capitalist countries (say the U.S.A.) the State regulates economic activity and the operations of business and industry, though the ownership and control vest mostly in private hands. In certain other countries which have chosen the democratic way of life, the State takes over the control and ownership of strategic points, in the economy and leaves the rest to private enterprise which works under proper regulation by State in public interest. This pattern of economy has come to be known as "mixed economy" and has been adopted by most of the democratic countries of the World, including India. In the newly emerging nations of Asia and Africa today, India is the biggest democratic country which is committed to an orderly constitutional process of change leading to economic development combined with reduction in inequality of income and a respect for individual liberty and initiative. Having adopted the 'Socialist pattern of Society' or ' democratic socialism' as our national goal, it was felt necessary that the State assumed direct responsibility for the future development of industries under the accepted concept of mixed economy.

In the second chapter the role of planning as an aid to government regulations and controls have been stressed. References have been made in the chapter to some of the controls which economic planning necessitates. A plan has certain objective and to attain those objectives a system of control and measures of the government regulations is needed. In a mixed economy like that of ours, which gives proper significance to private sector, the defined targets of plans cannot be attained without the help of a coordinated system of controls, while planning does not mean a complete control over all spheres of economic activity, it does imply a policy of control which will enable the fulfilment of the targets laid down in the plans. In fact, planning in itself forms an important aid to government regulations and controls.

It has been observed in the third chapter that the working and operation of different techniques and methods of controls need to be improved upon. There is a need for their continuous review and adjustment in the light of changing conditions. The working and organisation of the controls and regulations in each sphere has got to be adjusted keeping in view the structure of the industry concerned. The point to stress is that each control and regulatory measure has to be looked as a part of system and it must be operated so as to contribute effectively to the fulfilment of the objectives of the industry. The successful working of these controls will automatically depend on the measure of inducements they provide for the development and expansion of industries.

In the fourth chapter an attempt has been made to study the impact of government regulations and controls on industrial expansion in the country. It is common knowledge that the measure of the controls and regulations have resulted both in the expansion and contraction of industrial development. It has been found that during the early years of the start of the planning in India, the small scale industrial sector was more or less free from government controls and regulations. Thus resulted in increasing investment by the entrepreneurs in the unorganised sector of our economy. Thus the filed of industrial production having inadequate or no control at all had been rapidly expanding with great prospects for industrial profits. This had its impact on the large scale industries also. But with the adoption of a licensing policy, the negative aspect of controls were largely felt. The system prevented the influx of capital into the industries in general and heavy industries in particular. In addition to the short-coming of government regulations and controls, there were a number of other factors which hampered the growth of industries on desired lines. To name a few, these factors were the policies of foreign companies for establishing new industries, the uneven chances of profitability in different types of industries, the underdeveloped capital market and the low rate of savings and investment in the country.

In order to overcome some of these short-comings the role of financing in industrial expansion has been viewed in the fifth chapter. The chapter clearly brings out the fact that the government controlled financing insitutions have actually played an important part in the development process of the industry by providing different types of financial assistance to the private sector industries of the country. There are a number of financial institutions both at central and state level which are helpful, in various ways for the expansion of industrial activities in the country. The need of the hour is to further improve their working and operations so that the financial bottenecks of private sector industrial expansion may be removed.

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